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Данная книга содержит материалы научно-практической конференции, проведенной Университетом КИМЭП (Алматы, Казахстан) 17-18 апреля 2020 г. На конференции были представлены научные доклады, презентации и мнения экспертов на тему: «**Вызовы и возможности для экономики, бизнеса и общества в Центральной Азии и за её пределами**».

This book represents the Official Proceedings of the KIMEP International Research Conference held on 17-18<sup>th</sup> of April, 2020 at KIMEP University in Almaty, Kazakhstan. This conference featured scientific papers, professional presentations and panel discussions on topics related to the theme of “**Challenges and Opportunities for Economy, Business, and Society in Central Asia and beyond**”.



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## **“The role of social media as influencers on customers purchases decision”**

Andrey Nassybullin, MMKT, ID # 20141341 and Dewan Md. Zahurul Islam, PhD

### **1. Introduction**

The market economy, business and marketing for more than past ten years have acquired very real features of our country. The level of development of market relations, institutions, production technology, and the quality of life of the general population in Kazakhstan still lags far behind from developed/Western countries. However, the realities of markets and the globalization of business do not leave a choice - to be on the market of goods and services or not to be. Towards with the rise of social media and its ability to create endless content it was essential to get the power of persuasion by top bloggers and life-style influencers.

With the development of the Internet and the advent of social networks, advertisers have discovered a new channel of communication with consumers: influencers and opinion leaders. Three key features thanks to which brands are actively engaged in advertising on social networks (Arnold, 2017):

- 1) Interactivity. In social networks, you can directly interact with the audience, keep in touch with customers and provide them to the brand.
- 2) Targeting. This is a mechanism that allows you to select only the target audience from the entire available audience and show ads to it.
- 3) Web analytics. The simplicity of collecting analytical data on the Internet helps to quickly understand what actions were most effective, and views turned into purchases.

Influencer Marketing is a way of promoting goods and services through opinion leaders. It has recently been popular to promote brands through bloggers. Previously, this method was used in advertising on television, attracting famous actors and musicians (Barker, 2020). The main idea is that the target audience trust the opinion of the person who advertises the product. This influencer can be a well-known blogger, a reputable forum user, or a top recommender from the reviews site. Most campaigns using influence marketing have a social media component. As a result, advertising is distributed through the personal accounts of opinion leaders on social networks. The opinions of authority play a decisive role in deciding whether to buy a product. 88% of shoppers find online reviews “very influential” when they want to buy a product. 90% of consumers trust peer

recommendation, and only 33% trust ads<sup>1</sup>. People are less and less paying attention to traditional advertising methods such as banners and direct advertising, but they are listening to opinion leaders.

Opinion leaders are popular as they resonate and attract an audience. They also have a subtle sense of market conditions and, which is important for brands, they are ready to share their influence on the audience. An opinion leader is not only a mirror of brand values, but also an information channel. At the same time, the relations of opinion leaders with the brand should look harmonious. Therefore the opinion leader must beautifully integrate advertising materials into his content. Opinion leaders value the reputation of independent experts, so they often offer interesting ideas for integrating the brand into your account, blog; and here they should be trusted. Firstly, because they are experts in creating quality content, and secondly, to avoid negative feedback about cooperation with the brand.

Working with an opinion leader, a brand employs several marketing mechanisms at once (Fischer, Vauclair, 2011):

1. Celebrity effect. Bloggers are more popular today than TV hosts and pop stars. That is why, now, they are invited to TV to raise the ratings of TV shows. Working with the influencer, the brand gains the authority of a famous person.
2. Reaching to the right audience. Brands choose influencers not only by popularity, but also by the channels that they use. For example, if the consumers of the product are modern girls interested in beauty products, then you need to look for the beauty star on Instagram. If the clients are schoolchildren-gamers, then the top-level gamers on YouTube or Twitch.
3. The necessary tonality. Each blogger has his own style, vocabulary, tonality with which he communicates with subscribers.
4. Trust communication. Between bloggers and their subscribers, there is a warm, almost “close” relationship develops - thanks to the opportunity to chat with your idol on social media directly: for example, opportunity to get the answer to the question in the comments.
5. Long-term action. What bloggers produce is content that remains online and continues to gain views and comments, even years after publication.

Thus, working with influencers is working with a ready-made channel of influence on a ready-made audience.

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<sup>1</sup> Godey, Bruno & Cho, Jungsun. (2018). How Social Media Influence On Consumers' Luxury Value Perception. Global Fashion Management Conference. 2018. 287-292. 10.15444/GMC2018.03.03.02.

Work in any market - is the work not only and not so much to the goods, it is primarily the work with the consumer. Almost every business today - integrate efforts to identify, create, develop and meet the needs of individuals and companies. All participants of the market economy are suppliers and consumers of various products. It is not surprising that the work on the market - it is work that focus on the consumer.

Consumer Behavior - one of the main subjects studied by marketers worldwide. Work with the customer - the analysis, forecast, and in fact - control of behavior - casual component of professional work of each employee in the field of marketing. The need of the target market knowledge, the ability to create new market segments and to maintain existing market is growing not only for specialists today. Work with the consumer is becoming increasingly important for each participant of market relations, directly or indirectly outflow his product to the consumer.

The behavior of consumers - a broad concept and includes not only the process of buying a product (service, work), but also the behavior of consumers to buy and after its implementation (Assael, 2003). Considering the behavior of consumers to purchase, organization staff, studying the product and its market (marketing), considering factors that may influence the decision to buy the product or cancel the purchase. The election results could affect the family, the group, which for the individual is a kind of standard, i.e. the reference group. When buying marketers consider consumer reaction, study how the consumer will make a purchase. Analyzing the behavior of consumers after the purchase of marketers is studying the degree of satisfaction of the consumer purchase, likelihood to repurchase, and other processes. The consumer behavior also includes steps to get rid of the goods. Substantial bases of consumer behavior, according to experts on consumer behavior such as Hawkins and Best (1995), is the process of making purchasing decisions and that any conditions and factors influence this decision. They believe that if you study all these factors and conditions, you can learn to control this behavior.

Experts (Hawkins, Best, 1995) note that the conditions and factors that influence the decision to buy, can be divided into external and internal. As internal factors are the peculiarities of perception, characteristics of the individual as a consumer, the ability to learn, memorize the need to encourage action and client installation, as well as his emotional state. External factors also are versatile and different from each other. Image, lifestyle and status often have the greatest impact on the consumer.

The luxury segment of market increased through the past years that is shown by high demand of goods from cosmetics to jewelry and increasing volumes of fakes, which exactly shows the obsession with lux (). Marketing tools make it possible comparing desires of consumers and how

to meet them through the products available on the market. Obviously, purchasing decisions can be shaped and changed by marketing communication tools and influencers also play a vital role in their purchases and consumption of products. And while marketing communications directed, usually on the individual consumers, professionals, choosing specific methods of communication and advertising, should consider the situation of consumption and composition of the target consumers of the subscribers of influencers. That is why the issue researched in the thesis paper is significant.

## **2. State research question:**

Is there is a positive relationship between influencer's purchase impact on consumption decision-making and the level of concept-orientation of customers?

**Answer:** Yes, influencers have impact on consumption of customers.

Social networks fundamentally transform consumer behavior in view of their special specific features such as “depersonalizing the user”, freedom of expression, etc. To date, it seems impossible to fully project any of the existing theories of consumer behavior in classical marketing into the social media field. We note the obvious contradiction between the growing demand for social networks as one of the main marketing channels, on the one hand, and the lack of a convincing, theoretical and methodological justification for this socio-economic, including marketing phenomenon, on the other.

From the marketing point of view, every year more and more attention is paid to investments in this particular sphere of communications, reducing the cost of traditional media channels. Marketers today need to be aware that the usual understanding of the consumer as a subject, which can always be convinced of the significance of a particular purchase, has ceased to exist. Thanks to social networks as a modern reality, the consumer is now a hyper-informed skeptic about any type of commercial message.

Considering the problems of economic behavior, it is necessary to solve the task of selecting the unit of analysis. The unit of observation may be the individual consumers.

This work is intended to explore how local influencers affect the purchasing decision making of luxury goods by customers in modern Kazakhstan. The following objectives were developed:

- To find out the customer - influencer relationship in purchase decision making of luxury goods;

- To examine the extent of bloggers' influence in purchase decision making;
- To analyze the successfully implemented strategies and collaborations with influencers on the market.

### **3. Methodology**

In this thesis was created a sample of customers who constantly follow local influencers and opinion leaders to check if their purchase decisions are affected by the bloggers. The sample population was taken randomly and consisted of people different ages from 18 yo. For this study, a total of 130 self-completion questionnaires were distributed using the snow-ball convenience technique among customers. The primary method for this research was intensive in-depth interviews in order to collect the viewpoints and experiences of people who somehow involved in world of luxury products.

Out of distributed 130 questionnaires, only 50 participants sent the responses and 14 agreed for the personal interview. All of the collected information were analyzed, and the hypothesis tested to find out any relationship. The data was collected in two weeks in March 2020.

The questionnaire contained 14 questions, excluding the general statistic information questions. As Russian language is mostly used among the respondents, the questionnaire was translated into Russian, and right understanding of the questions was checked through a pilot study with 5 participants.

### **4. Data collection**

The primary method for this research was intensive in-depth interviews in order to collect the viewpoints and experiences of people who somehow involved in world of luxury products. Also, primary data collection tool provided the context and further insight to the study. In-depth interviews were conducted in Russian as a mother tongue of the experts. Experts were contacted via email and phone calls informing them that they had been chosen to participate in this research and asking if they would be interested in participating. Depth interviews are one of the methods of qualitative data collection. This method was chosen because Author took responses directly from experts and information exchange was quick and fast, and there was not any social pressure in comparison with group response. Moreover, author distributed online questionnaires in order to check the effectiveness of Survey. This method gave insight to the author if sample group consume luxury good and perception about consuming luxury goods.

## 5. Data Analysis

Analysis of data is the most important part of thesis. Analysis of data summarizes the data collected. It includes evaluating the data collected by using empirical or logical reasoning in order to determine patterns, relationships or trends.

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# **Logistics and warehouse management issues in Kazakhstan.**

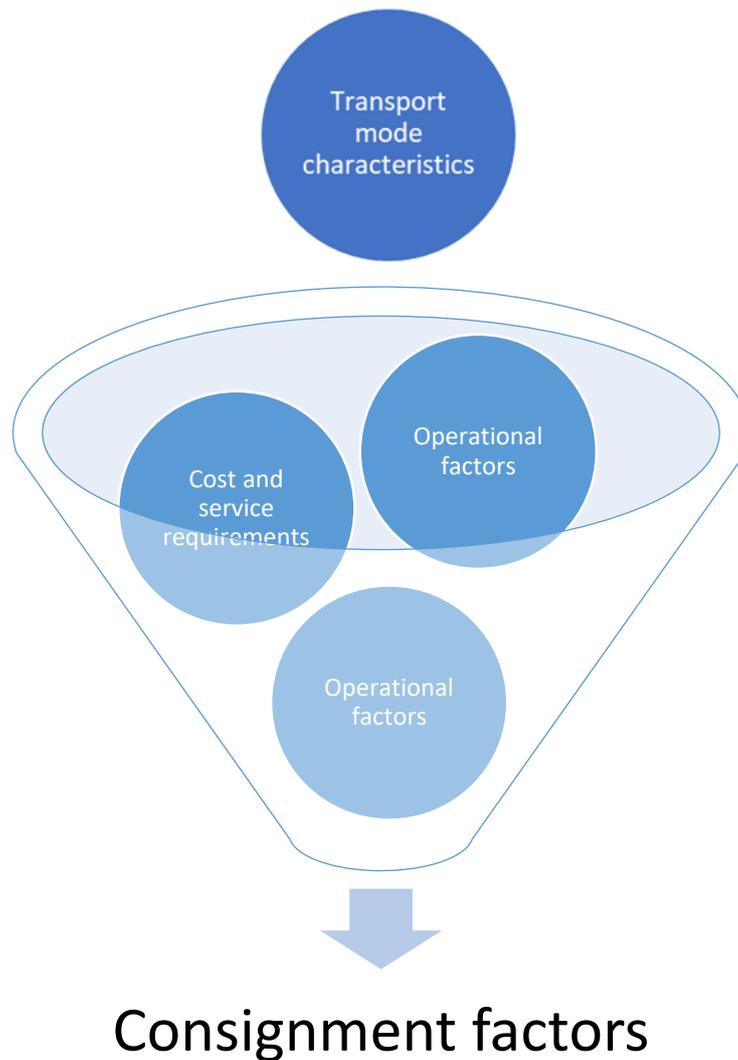
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## **1. Introduction**

Logistics is very important and essential part of our modern day life. Factors such as globalization, information system (IS) and logistics have made the world more open and comfortable for people and at the same time for the movement of goods (Islam, 2014a; 2014b). There are certainly some logistics and supply chain activities and actors who are behind every imported product on the shelves of local Almaty stores such as Magnum. Warehouse management is an integral part of logistics for the whole journey of the product from seller's premise to buyers premise (Islam, et al., 2013). The objective of this study is to investigate the logistics and supply chain management with a particular focus on warehousing in Kazakhstan and identify as to how the logistics sphere in Kazakhstan can be improved so that the products can be made cheaply transported to the stores.

## **2. Main body of literature**

Logistics consists of: freight movement by different modes of transport such as road, rail, and waterways transport; warehousing e.g. central versus decentralized; inventory management; packaging and unitization of products to be transported and flow of information. From the **freight transport point of view**, first of all Kazakhstan has no access to the sea, so the main transportation ways are air, rail or road. So, to some extent, Kazakhstan is a land locked country which is an inherent disadvantageous aspect. Depending on the type (in terms of size, volume, value, importance) of the product, the companies choose the mode or combination of modes of transport to be used (explained in Figure 1).



*Figure 1. Typical transport mode selection*

**Warehousing** is very important part of the total logistics and along the supply chain from supply of raw material to manufacturing/assembly factories to intermediate supply chain partners wholesalers and/ or consolidation center to retailers and finally the consumers. As Kazakhstan usually imports goods, it is very important to have this stage (warehouse) of logistics well-developed and well-functioning. Depending on the type of the goods, warehouses may be different in terms of geographical situation (e.g. central versus decentralized warehouse) and function (e.g. cross-docking; consolidation/deconsolidation; storing of products for short, medium and long terms), types of equipment (low tech to high tech) to be used etc.

Kazakhstani businesses typically uses warehouses for storage, but when companies faced with problems because of the needed processing i.e. value adding activities such as repackaging and wrapping, which they had to do and unfortunately there are not many warehouses that offers such facilities. For example, the warehouse in Almaty International Airport (AIA) is a customs

warehouse. Usually receivers handle their shipments in such warehouse until the customs clearance process is finished. Some companies may need to perform other value adding activities such as sorting and packaging and re-packaging the shipments. But currently they could not do it in this warehouse because of the restrictions. The main functions in a warehouse include: receiving, reserve storage, order picking (and sortation), collation and added value services, marshalling and dispatch (add reference).

Considering the situation, the warehouses in Kazakhstan discussed below:

1. Arrival of the shipment (e.g. Almaty airport warehouse). (**receiving**)
2. Goods taken to the reserved area (**reserve storage**)
3. Sortation of the goods among two cities (e.g. Almaty and Nur-Sultan) and several malls (e.g. Magnum, Small) (**order picking and sortation**)
4. Packaging and wrapping of Astana boxes (**collation and added value services**).
5. Picking up of Almaty shipments and moving of the Astana shipments to the export prepared warehouse (**marshalling and dispatch**) ( Rushton, Croucher, Baker, 2010)



Figure 2: Warehousing stages in Kazakhstan (Source: the authors, 2020)

Consultation with company representatives suggests that some company faced many problems with third and fourth stages (in Figure 2) as it is prohibited to perform sorting and packaging of the shipments in AIA Customs warehouse. The possible solution in this case is to pick up all of the shipments and move to the other nearby warehouse where the goods will be sorted and wrapped and dispatched. But the main problem is in the timing and cost due to such extra activities (and

there is a risk of some damage/delay or loss may occur during these unnecessary activities) which is ultimately paid by the final customer. So, the important point is to explore and find solution as how we can reduce/avoid the extra activities that results in cost and time required for the products in transit. It takes time and efforts (labour) to pick up all the shipments then transfer/transport it to the other warehouse, then sort and then wrap and prepare for re-sending.

In terms of **unitization and its movement** such as pallet movement, that there is a *wide range of equipment available for moving pallets in and around a warehouse, from simple manual aids to sophisticated computer-controlled automated equipment. Some of the most common types are as follows:*

- *Hand pallet truck.*
- *Powered pallet truck.*
- *Tugs and tractors.*
- *Conveyors.*
- *Automated guided vehicles (AGVs) (Rushton, et al., 2010)*

Companies in Kazakhstan usually use: hand pallet trucks, powered pallet trucks.

Hand pallet trucks or folk-lift manual equipment are for stores mostly, for example, their application in Magnum, Ramstore and other stores.

Powered pallet trucks usually are used in bigger warehouses with heavier goods and in bigger quantity. But in some stores, they also use automated one, because of the high height of the shelves.

***Cross-docking*** is an activity whereby goods are received at a warehouse and dispatched without putting them away into storage. The goods may thus be transferred directly from the receiving bay to the dispatch bay. This normally involves some form of sortation. (Rushton, et al., 2010)

Cross-docking in Kazakhstan is currently used mainly for the perishable foodstuffs. Also if the receivers had the preliminary declaration on customs clearance AIA, they can pick up the food shipment as soon as it is placed in the warehouse reserved area which are very close to the entry/exit area. But if the customs clearance procedure for the shipment is still not finished, they are placed in the special refrigerating zone which is not cross docking, because they will be stored in this area for some time so called 'time-utility'.

In regards to technology - low tech and high-tech warehouses, we find that most of the warehouses in Kazakhstan are low tech. Of course, we have some high-tech equipment and automation, but

still we cannot say it is high tech compared to modern warehousing system. Our research failed to identify any warehouses in Kazakhstan that use conveyors, and people are not contacting with the goods. At the same time, in almost every warehouse in Kazakhstan we have automated powered pallet trucks or folk-lift machines (Toyota Kazakhstan Web, 2020).

There are some U-flow types of warehouses in Kazakhstan, and some T-flow ones which are used in very low level of manufacturing.

U-flow is more suitable for warehouses for storage of fast-moving goods, while T-flow is more suitable for manufacturing and assembling (Specialized Storage Solutions Web)

### 3. Summary

Kazakhstan is a developing country which uses logistics and warehouse activities mostly for imported goods. High tech technologies and equipment are not well adopted for the current logistics schemes but logistics specialists already started using high level of technologies in some warehousing and transportation. Kazakhstan has a big field for growth in terms of logistics operations improvement.

Our **future research** will explore further how the warehousing in Kazakhstan can be improved so that the total logistics cost can be lower and be competitive.

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## **Perspectives of Apple Supply Chain in Kazakhstan**

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### **Introduction**

The world market of vegetables and fruits such as melons and gourds demonstrates a constant trend of growth in production in terms of volumes and an increase in sown areas. According to various estimates, the average growth rate of vegetable production is 4.5-5% per year, the growth rate of fruit production is 3% per year (Rijswick, 2019)). Since 2010, the consistent leaders in the production of vegetable crops have been the densely populated countries of the world, such as China, India, Brazil, as well as agrarian developed countries like the USA. The increase in the global production is influenced by an increase in demand due to the population increase of 1.87% annually, as well as changes in ordinary consumer preferences (an increase in the consumption of vegetables as a healthy food against, for example, the background of the 'fight against obesity' in developed countries or 'go vegetarian' slogan to achieve sustainable world).

Kazakhstan is an important producer and exporter of Apples. The export destinations of Kazakh Apple includes Russia and CIS (Commonwealth of Independent States) I.E. Central Asian countries. However, the global Apple market is very competitive. The following countries are major competitors in apple exports: China, Poland with small presence of other countries such as Italy, Pakistan and Kyrgyzstan. (Lemanowicz, Krukowski, 2019 ). The main idea of this research paper is to investigate and identify issues, problems and barriers and/ or enablers for the Kazakh apples' export to CIS countries. The paper aims to learn lessons from countries such as example China, Poland and Italy in the export of apples due to the fact that the first place belongs to China as global leader in export followed by the US and Poland. However, in this paper we will discuss the development of Kazakhstani apples import and export. Also the paper will explore the current issues in farming.

The goal of supply chain management in this area is to minimize logistics costs while maintaining a decent level of quality to satisfy customer needs. To achieve this, the main tasks are summed up through literature review are:

- Formation and establishment of a stable network of supply, production, distribution, of goods. To do this, we need to conclude a distribution agreement with the major local apple producers. The advantages of official distribution contracts are that they determine costs in the supply chain to be borne by the supplier of the goods. In addition, due to the fact that the companies will have a

stable network of supply (e.g. raw materials for farming) of goods and distribution (of final product i.e. apple) contracts. This provides an additional guarantee for protection against supply chain disruptions, since it works only with trusted suppliers (Mushtaq et al, 2012) .

- Forecasting supply and demand. To form a well-thought-out organization of supply chains, it is necessary to constantly monitor the state of the market, and engage in forecasting demand and supply planning. In addition, each cargo is subject to compulsory insurance, both compulsory and additional insurance in order to reduce entrepreneurial risks (Kaminskiy, 2019).

- Integration and coordination of supplies. This task is perhaps one of the most difficult in the supply chain organization. For its successful implementation, you need software, for example, a logistics program - "USU.kz". The program downloads data from the Internet, and on the basis of its analysis creates the most optimal delivery route, and in case of any changes it provides data on route coordination, and company managers transmit this data to carriers (Mushtaq et al, 2012).

- Management of relationships with suppliers and customers. Sustainable and dynamically developing relationships with suppliers and customers are very important because they help optimize the supply of goods. As for the client base, its presence allows you to create a special loyalty program for regular customers of the company (Rijswick, 2019, Chopra, 2007).

- Introduction of outsourcing and logistics contracting. Outsourcing and logistics contracting for certain types of services are usually used to optimize supply chain management. With regard to logistics contracting, contracts for the transport of goods are concluded with transport companies, this allows to significantly optimize transport costs.

- Inventory management in the supply chain. The solution to this problem allows you to optimize supply chain management. For its successful solution, the company also uses software resources. Using the program allows you to calculate the optimal level of availability of goods in stock. That is, customers can almost always get the required quantity of goods because they are in stock.

- Supply analysis and controlling. The solution to this problem will maximize the optimization of accounting and control activities and track deficiencies in the current organization of the supply chain of goods, as well as find effective ways to solve these shortcomings.

In the following section we will discuss the issue of apple producers, exporter and importers in the global market place.

### **Main apple exporters and importers**

Drivers of growth in the global trade in vegetables and fruits are improved marketing and technology for transportation / storage of products, as well as an increase in year-round demand for all types of products due to changes in consumer preferences. By the end of 2019, Kazakhstan can produce about 300 thousand tons of apples for 54 billion tenge with a total market potential of more than 80 billion. Last year, Kazakhstan gardeners managed to grow 222 thousand tons of this fruit, according to the reports of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan.

The biggest volume of apples was collected by individual entrepreneurs and farms - more than 138.3 thousand tons: 62.5 thousand tons were given by households and 21.6 thousand tons - by agricultural enterprises. In other words, the bulk of Kazakhstani apples is grown by small farms. Under apple orchards in Kazakhstan is more than 34.6 thousand hectares of land.

Kazakhstan began to grow more apples for several global reasons. Firstly, demand is growing, and secondly, imports are still a serious part in this industry, and thirdly, the state has begun to support domestic producers by subsidizing credit rates and returning part of the production costs.

According to the Committee on Statistics, in 2018, Kazakhstan imported almost 121 thousand tons of apples worth \$ 56.2 million, mainly from China and Poland. At the same time, apple exports in 2018 were more than doubled compared to the previous year, but remained at an insignificant level – but only 4 thousand tons for \$ 1.3 million. Thus, the approximate capacity of the apple market in Kazakhstan is about 450 thousand tons and can potentially be estimated at 81 billion tenge.

Kazakhstan exports of apples is very small compared to its imports, but there is great progress and potential in export growth. We are talking about industrial exports, because the Russian retail chains (e.g. Magnum that imports apples) are starting to talk with the Kazakh apples producers, if it can deliver from 2 thousand tons of apples per year, with equal volumes stretched for the whole year, and for this to happen, good warehousing with refrigeration system are needed. Foreign experts see the great future of Kazakhstani gardening<sup>2</sup>.

The total fruit turnover in Kazakhstan amounts to hundreds of millions of dollars: 417,432 thousand US dollars amounted to import of fruits into Kazakhstan in 2018; export only 9.047 thousand US dollars. According to the results of 7 months of 2019, fruits worth 179 million US dollars were imported to Kazakhstan. For the same period of 2018, fruits worth \$ 264 million were imported. According to the results of 7 months of 2019, exports amounted to 23 million US dollars, which

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<sup>2</sup> N.a (2019) Kazakh-Polish relations are an important factor in cooperation in the space from Central Asia to Central Europe Retrieved from <http://www.mfa.kz/ru/content-view/kazahstansko-polskie-otnosenia-vaznyj-faktor-sotrudnicstva-na-prostranstve-ot-centralnoj-azii-do-centralnoj-evropy>

exceeded the indicators of 2018 by more than 2 times. For the same period of 2018, fruits were exported from Kazakhstan in an amount not exceeding 3 million US dollars.

Statistical Agency Kazdata gives information on first seven months of Kazakhstani imported and exported fruits of 2019, presented in the following tables. (Tables 1, 2)

Table 1. Import of fruits in Kazakhstan for 7 months of 2019, in USD and tons

Name of fruit	import, thousand US dollars	Tons
Apricots, cherries and cherries, peaches (including nectarines), plums and thorns, fresh	74,061	96,230
Apples, pears and quinces, fresh	38,264	88,056
Bananas, including plantains, fresh or dried	18,968	42,260
Grapes, fresh or dried	15,346	20,516
Citrus fruits, fresh or dried	14,555	25,348
Dates, figs, pineapples, avocados, guava, mango and mangosteen, or garcinia, fresh or dried	10,255	20,315
Other fruits, fresh	6,715	6,400
Melons (including watermelons) and papaya, fresh	724	1,842
Total	178,888	300,967

Source: [www.kazdata.com](http://www.kazdata.com)

Table 2. Export of fruits from Kazakhstan for 7 months of 2019, in USD and tons

Name of fruit	export, thousand US dollars	export, tons
Melons (including watermelons) and papaya, fresh:	10,730	50,090
Apples, pears and quinces, fresh	8,016	5,405

Apricots, cherries and cherries, peaches (including nectarines), plums and thorns, fresh:	2,195	14,955
Grapes, fresh or dried:	840	2,746
Dates, figs, pineapples, avocados, guava, mango and mangosteen, or garcinia, fresh or dried:	621	2,256
Citrus fruits, fresh or dried	255	803
Other fruits, fresh.	136	306
Bananas, including plantains, fresh or dried:	129	213
Total	22,922	76,774

Source: [www.kazdata.com](http://www.kazdata.com)

During one of the interviews<sup>3</sup> (in September 2019) with Mr. Arsen Rysdauletov, the Head of the Association of Gardeners of Almaty Region that suggests that the main issues in the development of gardens for apple in Kazakhstan as infrastructure and personnel. There are also other reasons, as bureaucratic barriers and lack of proper processes in logistics and storage of fruits, they will be considered further in the paper.

To solve such problems in other countries for example in the Netherlands, an association was created, which today includes 15 households. Inside organization, farmers share experiences, knowledge, invite foreign specialists to train employees. Along the way, members participate in the international project “Dutch Fruit Solutions Kazakhstan” (DFSK). In the Netherlands, 14 companies created a cluster, and the Kazakh association intend to learn from the Dutch experience. DFSK is a public-private partnership (PPP) project between the Dutch government and their businessmen. The partnership includes nurseries that grow seedlings, manufacturers of drip irrigation equipment, manufacturers of garden chemicals and others. All DFSK assets are located in the Netherlands, and in Kazakhstan, the Dutch intend to build a 2 ha demonstration site to showcase best practices. It is planned to attract KazNAU and the Institute for Horticulture (KF &

<sup>3</sup> Kaminskiy A (2019) Apple events in Almaty. Retrieved from [https://express-k.kz/news/na\\_mestakh/samoe\\_yablochnoe\\_v\\_mire\\_sobytie\\_prokhodit\\_v\\_almaty-147331](https://express-k.kz/news/na_mestakh/samoe_yablochnoe_v_mire_sobytie_prokhodit_v_almaty-147331)

VRI) for this project. This is the first such project on the Kazakhstani market, which is due to start in 2020. The main goal is the creation of a gardening competence center in Kazakhstan. It is planned to create a school in the Enbekshikazakh region, where will be trained specialists for local production facilities. This task is not for a year, but for decades, because it takes about 10 years to prepare a qualified agronomist.

Interest of Dutch companies and government in Kazakhstani market of apples is rational, as Dutch export of fruits and vegetables is growing and expanding last years, targeting not only EU countries but other big markets, Recent research that was made by Dutch government focused on main companies that produce apples and established links with them in both Russia and Kazakhstan (Fruit Sector In The Russian Federation, Kazakhstan And Belarus, 2018) Such interest also created new opportunities for local farmers and companies to get not only business links but also get some experience form Dutch side. Currently, the main emphasis is on the South Kazakhstan and Almaty regions. According to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, these areas are the leaders in apple gardening in the country. According to the results of last year, the area of apple orchards in the South regions amounted to 46% of the total area of all apple orchards in the republic - almost 15 thousand hectares; 37.7% of apple orchards of the country are concentrated in the Almaty region - 12.2 thousand hectares.

This is not the first time it has been said about geopolitical conditions favorable for Kazakhstan, which open up new prospects as a supplier of apples. For example, this topic was raised at the international conference “Fruit and Vegetable Business of Kazakhstan - 2016” at the end of October (year). The economist of the investment department of the Food and Agriculture Organization of the United Nations (FAO) Andrei Yarmak noted that “Kazakhstan in this case has a very favorable geographical position, which allows this country not only to successfully and duty-free supply its products to the Russian market, but also become a regional hub for the transit of fruits and vegetables from other countries of Central Asia,”<sup>4</sup> (). Also, speaking about the issue of the export potential of Kazakhstani apples, one cannot but recall the program for the revival of the famous Almaty aport, launched last year. The initiator of this project was Apple World, which allocated 400 million tenge for its implementation. The company plans to plant 35 thousand aport seedlings in the suburbs of Almaty before the end of this year.

### *Competitors*

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<sup>4</sup> EastFruit.com (2019) Retrieved from <https://east-fruit.com/article/andrey-yarmak-s-eksportom-yabloka-v-novom-sezone-budut-opredelennye-slozhnosti>

Till 1945, there was no clear identification of scientific nomenclature and detailed report of fruit tree-varieties of various kinds that were grown in Kashmir. Later on through various surveys, it was identified the availability of 113 varieties of apples, 62 varieties of pears, 31 of plum, and 14 of cherry in early, medium, and late groups, besides scores of Wild Crabs variety of apples, etc. But still there are various ancient records which state that the cultivation of the temperate fruits like apple is nearly 3000 years old. Kalhana in Rajtarangni makes mention of it in the reign of King Nara (1000BC). One of the most famous places in the valley of Kashmir noted for its apple cultivation is Sopore in Baramulla district, for it has lot of apple yards. (www.indianmirror.com, 2014).

It is already noted that China is one of the world's largest apple producers. Imports from China reign in the Kazak domestic market. The imported apples from China is cheaper than Kazakh ones. Although it should be costlier due to transportation costs, consumers and experts think that it is the lower quality of imported Chinese apples that allows their dominance in Kazakh market. In the apple sector of China, a paradoxical situation has developed. Despite the fact that China accounts for more than 50% of world apple production, China is the largest exporter (and consumer) of these fruits as well. Experts (references) name three reasons that imported apples are not very popular among the local population:

1. Lack of variety in assortment and lack of planning. In the Chinese apple industry, the range of products is very limited. Almost all growers grow Fuji apples, that remains the same for the last decade<sup>5</sup> Since there are no planning tools, Chinese farmers grow Fuji apples out of habit in all regions what they are used to for long time.
2. Low quality of products.
3. Conventional or old management of apple orchards and supplies. That is explained by huge volumes but poor management of the most of the orchards, which requires constant costly upgrading of soil and water dynamics and carbon sequestration.

Despite the fact that the process from harvesting to picking, sorting and selecting and transporting to the international markets takes a long time for imported apples, consumers get a good product without external flaws. This is due to the fact that modern packaging and refrigeration equipment is an integral part of the supply chain of foreign apples. Large manufacturers abroad, for example, in Poland, have packaging facilities with standardized quality assurance operations integrated into

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<sup>5</sup> Hoying S., Rosenberger D. , and Lamont G. (2006) Apple Industry in China. New York Fruit Quarterly • Volume 14 Number 1 • 2006. Retrieved from <http://nyshs.org/wp-content/uploads/2016/10/The-Apple-Industry-in-China.pdf>

the production process (Gorlach et al, 2018). Chinese farmers have few such innovations so far, so local apples are sent mainly for processing, and not for fresh sales (Hoying et al, 2006).

**2. State research question:** Could Kazakhstani Apple farmers fulfill the needs of the country?

**Answer:** Yes, local farmers and orchards could compete with leaders in agrarian countries.

There are two main reasons for such significant and qualitative development of the industry in Kazakhstan: first is governmental support (for example new program for development of organic farming in irrigated lands and in gardens) that is extending from 2020 and aims to create farms in each village of the country. The second is chance to export more apples and other fruits to bigger markets (Russia). Therefore, claiming better quality of fruits would improve current situation and get more market share for local farmers.

### **3. Methodology**

Literature review conducted in previous section and identification of issues and problems for apple supply chain. The next step is to collect primary data from different stakeholders of apple supply chain in Kazakhstan. We will prepare a survey questionnaire that will be used in the interviews.

Major fruit and vegetable markets to be visited and interviews will be conducted with related actors of value chain. A brief description is given below:

- Visit to Apple Farms – 5 apple farmers committed interviews to collect information regarding production, harvesting, grading and packing practices, and to estimate the economic gains and sales for the apple value chain.
- Visit to Fruit and Vegetable Wholesale Markets/ Supermarkets – Magnum and Metro chains were chosen in Almaty, as they stand as biggest supermarkets with biggest market share. Demand planning and import/purchasing related issues will be particularly of important issues to be investigated.

### **4. Data collection**

For my research paper the data collection I used different journal publications and researches from scholars and professionals on the supply chain and especially apple farms development and different statistical data available on governmental sites.

### **5. Data Analysis**

The information on price of different grades and packs of produce at different levels of the value chain would be collected and accurately analyzed; Production, harvesting, transportation costs and labor used to perform different activities at each stage of the chain, would be obtained from all

across the value chain which includes producers, pre-harvest contractors, harvesting/packing labor, transporters, commission agents, wholesalers, traders, exporters and retailers.

## **6. Analysis and Findings**

The southern regions of the country have enormous potential for the development of organic farming in irrigated lands and in gardens. And the Ministry of Agriculture of the Republic of Kazakhstan has already developed a draft program to stimulate this area. Almaty and Zhambyl oblasts should become the basic regions for the cultivation of "pure" fruits and vegetables oriented to export.

Moreover, increasing demand on local market also should be covered mostly by local production. Interviewed farmers and representatives of supermarkets also stated that there are all possibilities for Kazakhstani apples to gain the most of the market share.

## **7. Recommendations**

Apple is a major fruit of Kazakhstan, especially having Almaty and South Region as perfect place to gain popularity and market share on international scale. Having good storability characteristics, the fruit is available for consumption, fresh as well as stored, almost throughout the year. First conclusions after literature review and market research in Kazakhstan include:

- Grading, packing and marketing standards are either non-existent or not being implemented.
- Mostly low quality produce is mixed with good quality in a pack, which leads to poor confidence of buyers regarding contents of the pack.
- Branding efforts are almost non-existent or are very little.
- A very small proportion of apple produce is processed into value-added products such as apple pulp, jam, jelly, juice, squashes, drinks, clear concentrate and apple preserves.
- Poor/traditional cold storage facilities which result in deteriorating the quality of stored produce and high storage losses.
- Lack of awareness, on the part of cold store operators, regarding storage requirements of apples.
- Sanitary and Phyto-sanitary issues.

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# “Factors Influencing Effectiveness of Online Advertising”

Maxim Mashkunov, MMKT, ID# 20171208 and Dewan Md. Zahurul Islam, PhD

## Abstract

This study aims to identify the key factors that play an important role in the effectiveness of online advertising in Kazakhstan and explore the challenges that businesses are facing nowadays to attract consumers through means of online marketing. Through research this paper will provide guidance for the companies who are struggling in the global competitive environment on how to stand out among their counterparts and reap the benefits of their advertising campaigns. It can be clearly stated that, due to the changing nature of today’s world, there is a lack of relevant studies that would paint a vivid picture of the situation taking place in the advertising industry in Kazakhstan. This research sets out to fill that gap and present a fair reflection of the consumers’ perception of online advertising as well as point out the strategies and techniques to affect the consumers’ purchasing behavior in a way that is beneficial to the Kazakh enterprises.

**Key words:** online advertising, consumers’ buying behavior, advertising effectiveness, types of advertising, Kazakhstan.

## Introduction

We are living in the digital age. The way things are done has changed so dramatically that it is necessary for the companies to adapt and find new ways to promote their products and services. With so much information available, it is becoming increasingly difficult for any business organization to stand out and attract consumers. Digital transformation has added a whole new dimension as to how the products and services are being promoted and advertised. The role of traditional media is gradually disappearing due to the new electronic media that is taking over at a pace that the world has not yet experienced before. And, according to the latest reports (Statista 2019), it doesn’t show any signs of stopping or slowing down.

Marketers are watching closely how these transformations are unfolding in today’s era and trying to come up with new strategies and techniques to grab the attention of consumers who have become extremely sophisticated and harder to please. New ways are needed to reach customers who are turning into picky and demanding users that marketing specialists are trying to wrap their heads around. The old ways businesses have used in the past are not working right now and have left many companies lagging behind those that were faster to adapt to new changes in the competitive environment.

There are two modes of living: online and offline (or traditional). The online mode is seemingly outweighing the latter at a remarkable speed. Marketers look to advertise where most people gather or observe, and it’s certainly not offline. Due to the latest advancements in technology, and especially in the area of the internet and social media, consumers prefer to spend more time online and not offline (Coral Oulette 2020). According to the latest statistics of 2018 provided by Global Economy, nearly 80% of the Kazakhstan

population use the Internet. That figure is expected to grow exponentially as the process of urbanization in Kazakhstan is in full swing ([Global Economy 2018](#)).

When the Internet first came into the market and became available to everyone, there were questions and doubts as to whether it can be used as a commercial medium. Back then Internet was not accessible to a large portion of the population and the first attempts to use this instrument didn't lead to any solid results. This could be explained by the fact that advertisers and customers weren't so familiar with the online space and online advertisements didn't show productive performance and couldn't be relied on.

But as the time went on, a great amount of Internet users received broadband connections and online advertisements became very attractive ([Karla Cook, Hubspot, 2016](#)). As a result, advertisers began to experiment with ads in the form of pop up in a new window, or pop up under the window ad so that the user could see the ad even after the main window is closed. The main principle behind this type of advertising was to make advertisements in a way that the user would have no option but to look at the advertisement. In this case user gives more attention to the advertisement and can remember the message better.

Having said that, the following research questions arise. 1. How do marketers leverage online advertising to attract new customer base? 2. Does offline advertising still have a say in the business or should all companies just switch to online to be sustainable and profitable in the long run? 3. What are the most effective online tools to use in online advertising?

Furthermore, this research is aimed at testing the hypotheses noted in the next section.

## **Literature review**

According to technopedia ([Technopedia 2018](#)), online advertising refers to a marketing strategy that incorporates the use of the Internet as a tool to gain website traffic and target and deliver marketing messages to the right target audience. Online advertising is designed toward determining markets via unique and useful applications.

Roe Ganot (2017) singles out 8 types of online advertising: display advertising, search engine marketing & optimization, social media, native advertising, pay per click (PPC) ads, remarketing, affiliate marketing and video ads. All of the mentioned techniques of advertising have their own function and application for suitable marketing campaigns and are used accordingly.

A wide amount of researchers, e.g. Tyagi and Kumar (2004), have elaborated on the topic of advertising management from the point of view of advertisers. The authors mainly focused on how advertising management impacts advertising effectiveness in the area of online advertising. For example, Bejjizn-Avery, Calder. (1998) pointed out that there are only two ways to estimate the effectiveness of the interactive media. One being the level of persuasiveness of the media which believes that consumers are positive in affect, preferences, and purchase intentions (Bejjizn-Avery et al, 1998). The research guides the ways to design effective online ads to capture the full advantages of the E-Advertising.

Patsioura et al. (2009) have worked on an advertising effectiveness model for corporate advertising web portals. Teo, Wei. (2003) presents in his research a model to investigate the impacts of interactivity level on web user's attitude regarding commercial web sites. Internet advertising, which is a relatively new medium, has received quite a massive attention from both scholars and practitioners, in particular from effectiveness perspective. Eighmey, Korgaonkar & Wolin (1997) state that attitude towards the Internet advertising on the Web based environment has a great influence on customers.

Schlosser, Shavitt & Kanfer (1999) state that some surveys conducted illustrate that respondents view E-advertising as more instructive and reliable compared to a demographically similar sample observed in common advertising. Ducoffe (1996) in his work argued that the distinction between advertising and web editorial is unclear, with 57% of respondents labeling web pages as advertising.

Speaking of the importance of internet advertising, academic focus on the subject has increased significantly over the past ten years, as scholars work to keep pace with, and comprehend a greatly changing communication environment (Kim, Hayes et al. 2014). Advertising researchers have paid attention to topics such as interactivity (Cho and Leckenby 1999, Wu and Wu 2006), electronic commerce (Childers, Carr et al. 2002, Kim, Kim et al. 2010), and social media/networks, with the latter being the quickest booming area (Brajnik and Gabrielli 2010, Pomirleanu, Schibrowsky et al. 2013). Some researchers have focused on comparing and contrasting traditional media and the internet. Although, many of these studies were done in the early phases of internet research when researchers were still trying to see internet advertising in the context of traditional advertising (Kim and McMillan 2008).

Because of the diverse nature of advertisement formats in the online environment, advertisements are grouped into three general categories, they are search, classified and display advertising (Goldfarb 2014). Search engine advertising is a place where advertisers pay to be shown alongside organic, non-sponsored search results (Ghose and Yang 2009). These paid search advertisements work on complicated algorithms and use keywords with charges based on popularity and relevance (Katona and Sarvary 2010, Yao and Mela 2011). Classified advertising come up on websites specifically created for hosting these advertisements, such as Craigslist, Gumtree or online job sites (Goldfarb 2014). Display advertising is the most popular and effective type of online advertising, being omnipresent on the internet due to its presence on a lot of websites (Cho and Cheon 2004, Balseiro, Feldman et al. 2014). Display advertisements can include banner advertisements in different places on a webpage, pop-ups, interstitials, and screen-takeovers (Burns and Lutz 2008, Goldfarb and Tucker 2010).

Behboudi (2012) conducted a research on the working of ad agencies in internet community. The study was done through survey in which questionnaire was used as a means to collect the response on internal and external variables such as relationship management, clean homepages, account management, creativity, sponsored ads, direct email and lead generation impacting the advertising agencies. To internalise these variables in Iran, t-test was used on the data collected. As a result, creativity was found to be the most significant variable taken into account by the advertising agencies while the other core variables affecting

the activities of advertising agencies contained internal variables like relationship management, account manager, creativity, uncluttered homepage and external variables like direct email and sponsored ads.

### **Hypotheses formulation**

Literature review on the effectiveness of online advertising led to the formulation of the following hypotheses.

H1. Video ads are more effective than ads containing only text and a picture.

H2. Consumers are more willing to watch an ad with a celebrity than an ad with a common unfamiliar person.

H3. Traditional media like OOH and TV are losing its power and giving way to electronic media.

H4. Consumers would rather buy a product that was promoted using a celebrity than a product where no celebrity was used.

The abovementioned hypotheses shall be confirmed or disproved after the comprehensive data is collected and processed from the surveys

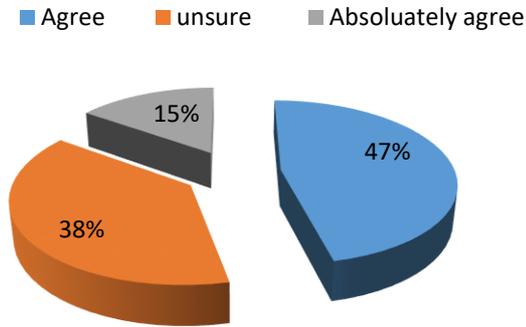
### **Methodology**

This study was based on a combination of descriptive qualitative and quantitative research methods with a structured questionnaire to collect data from consumers of Kazakhstan. Applying different means of data collection such as surveys, e-mails, SurveyMonkey, the questionnaires were distributed to the consumers of Kazakhstan. Furthermore, in-depth interviews were conducted to get a better understanding of the factors that affect consumers' decisions and advertising effectiveness. The chosen research methods will help provide answers to the research questions posed in this paper and test the formed hypotheses.

### **Analysis and findings**

After analyzing and testing formulated hypotheses, it was found out that 2 out of 4 hypotheses were confirmed: H1, H3. As the world is switching to new formats of advertising, it is becoming evident that old types of media will no longer become effective and yield any significant benefits for the businesses. In response to the first hypothesis regarding the video ads, almost a half of the respondents, 46%, said that they would rather prefer a video format advertising compared to other formats finding it more appealing and enjoyable (see Table 1). With that being said, text and picture type of advertising will gradually become scarce and rare. With regards to celebrity involvement in the advertising, only 22% stated that they would definitely watch an ad to the end if a celebrity was involved. This gives an interesting insight that typical celebrities lose their power and give way to other less popular, but likeable and charismatic bloggers with a solid following.

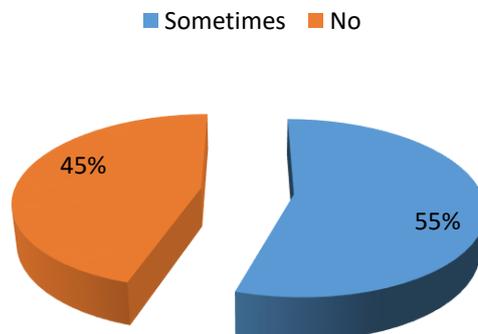
## I would rather prefer a video ad to a text or picture ad.



Graph 1. Effectiveness of video ad

Speaking of traditional media, like TV and radio, it can be pointed out that, despite still being very expensive in terms of cost of placement, started to lose their dominance in the advertising hierarchy. It was estimated through the survey that was conducted, as part of this research, that 46% of people between the ages of 25-39 don't watch traditional TV at all, with 54% (graph 2.) of respondents saying that they watch it occasionally. And much of that change can be attributed to the way people choose to receive new information nowadays through online. For example, YouTube currently has 2 billion active monthly users, and around 5 billion videos are watched every day, which is an astonishing figure ([Omnicores agency 2020](#)). The meteoric growth of such platforms as YouTube and Instagram give us the indication that the public is willing to switch to digital formats, and as a result that's where all the advertising clusters.

## Do you watch TV?



Graph 2. Profile of TV viewers in Kazakhstan

## Conclusion

The main objective of the study was to identify the main factors influencing the effectiveness of online advertising, answer the research questions regarding the usage of online tools and the role of traditional advertising as well as confirm or disprove the formulated hypothesis. The findings revealed a strong tendency and inclination towards online advertising, especially video advertising that is going to make up for more than a half of all online advertising. This is backed by the fact that by 2020 videos will make up 80% of all consumer internet traffic. Based on the survey conducted in this research it can be concluded that old and traditional ways of advertising like OOH, TV and radio will slowly lose its positions and recede on the landscape of advertising.

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# **“The Role of Social Media on Recycling Behavior in Kazakhstan”**

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## **Abstract:**

In recent days environment pollution has become a concerning issue for everyone. To effectively manage waste, it is vital to create a balance to promote recycling and protect people against harmful chemical. The waste management system is a very complex structure. Not all countries have a good waste management system. Social media is especially beneficial for the waste management industry since people over the world, today are more aware regarding environment conservation than ever before. This study explores whether social media can be used to influence the behavior of citizens on solid waste reduction in the household. In this report, I will try to explain the importance of social networks for processing waste management in Kazakhstan.

Keywords: waste management, social media, citizens, solid waste, awareness

## **Introduction and objective**

Earth is our mother and giver of all things to all people. We consume many things and produce a lot of wastes, from personal or household waste to community level waste; business to industrial level waste. For example, we eat banana and throw away the skin. The question is where to throw and how to throw away? At household live, we cook our food and produce waste such as potato skin and some other food waste. The question may be asked – how to handle those waste at the household level? How it can be managed effectively without harming others including neighbors. Today such issues of the waste generation, handling and management related many problems are becoming the most acute day by day.

Within the past few years people have been awakened to the dangers caused by the mismanagement of wastes. Dumping of wastes in open space, then land filling with the wastes and open burning are the main implemented waste treatment and final disposal systems, mainly visible in low-income countries. Today human faced with dealing with past accumulations of wastes, and also with the tremendous task of establishing new guidelines and solutions to combat with ever increasing amount of waste.

There are various types of waste: organic waste solid waste. Liquid waste etc. Each type of waste has its own recycling program. Waste management problems and its disposal strikes environment and health hazards. Unfortunately, recycling technology is not developed in all countries.

The leaders in waste recycling: Sweden, Japan, Germany, Switzerland. In these countries, the recycling system has been introduced since the middle of the last century. Why is it important to recycle solid waste? How to introduce a new strategy for collecting solid waste, second raw materials in our country? How to make people care about our environment? The ecological situation concerns not only our country, but also the whole Planet. The main problem of our people is that they do not care and not realize the scale and seriousness of this problem. I decided to take this topic for my research, because I deeply interested in ecological situation in our country and I believe that it is possible to make people in our country pay little attention to the environment

## **2 Literature review**

### **2.1 Global Waste Index**

GLOBALLY, THIS YEAR 492,174,957 tons of waste dumped

The Recycling Index assesses a country's willingness and ability to manage solid waste in a manner, which promotes circular material flows. This index identifies countries where the inability to recover and recycle solid waste is likely to result in risks to businesses. These risks are quantified by considering the proportion of a given country's solid waste that is collected, adequately managed and recycled, in addition to the level of governmental commitment measured through compliance with international waste-related treaties.

Without urgent action, global waste will increase by 70 percent on current levels by 2050 Driven by rapid urbanization and growing populations, global annual waste generation is expected to jump to 3.4 billion tonnes over the next 30 years, up from 2.01 billion tonnes in 2016 We bin around 50m tonnes of electrical waste globally every year. That's nearly 4 million double decker buses worth of old computer equipment, TVs, stereos and kitchen appliances, stretching to the moon more than 3 times over! Learn more about preventing electrical waste here. We throw away 7.2 million tonnes of food every year, and more than half of it's perfectly edible. Between 20% and 40% of fruit and vegetables are rejected by supermarkets before they even hit the shelves. Why? Because they don't adhere to their cosmetic standards – they're misshapen, lumpy or just plain weird-looking. But that's how nature intended, right? Bypass the shops by growing your own. Humans now buy a million plastic bottles a minute. Most of this plastic ends up in the ocean. By

2050, the ocean will contain more plastic by weight than fish. It's not just what goes in the bin that counts as waste – water can be wasted, too. A single leaky tap in your house can waste as much as 5,000 litres of water a year. If we all fixed our dripping taps we could supply 120,000 people with a day's worth of water.

## 2.2 Classification and types of waste

### Physical state

- Solid waste
- Liquid waste
- Gaseous waste
- Source
- Household/Domestic waste
- Industrial waste
- Agricultural waste
- Commercial waste
- Demolition and construction waste
- Mining waste
- Environmental impact
- Hazardous waste
- Non-hazardous waste

## 2.3 Waste management in different countries

Japan

USA

German

Switzerland

Russia

Sweden

Kazakhstan companies

## **Research methodology and data collection tool;**

3.1 Statement of the Problem

3.2 Research design

3.3 Participants

3.4 Exploratory research

### 3.5 Descriptive research

#### **Exploratory research**

Exploratory research helped (interview with Kazakhstan Waste Recycling manager, secondary data) to identify the problem, develop an approach to the problem and formulate an approach design. I have used 2 types of methodology: Primary data and Secondary Data Collection

A competitive research was conducted to collect and analyze the information about recycle companies in Kazakhstan. To begin with, among all recycle companies in Almaty city, Aktau, Nussultan, Pavlodar, Shymkent. Top 3 companies were identified based on their eco activities. And interview with KWR (Kazakhstan Waste Recycling). Generally, companies were analyzed based on the following criteria: (Company's logistics, social media, website, type of solid waste)

The data was collected from online resources (<https://www.kwr.kz/> Instagram, websites and social networks) and interview with KWR (manager).

#### **Advantages**

- Identify the problem.

The problem is to increase the population of people interested in recycling

- Better define the problem

Explained KWR situation (income, environment, political factors etc)

Explained KWR strength and weaknesses (employees, the number of customers, type of customers, etc)

- Develop an approach to the problem

1. interview with manager
2. collect secondary data
3. analyse secondary data

- Formulate an approach design

Qualitative research provides insights and understanding of the problem setting

Quantitative research seeks to quantify the data and applies some from statistical analyses

#### **Descriptive research**

Survey with customers -conclusive descriptive quantitative research

The next part of the research will be descriptive research as it is relatively easy to administer questionnaires, simplifies coding, analysis and interpretation of data. Helped to conduct survey with current and potential KWR's customers

- Survey with customers
- Describe consumers
- Determine perception
- Describe the characteristics of relevant groups, such as consumers, salespeople, organizations, or market areas.
- Estimate the percentage of units in a specified population exhibiting a certain behavior.
- Make specific predictions

Advantages:

- Questionnaires are relatively easy to administer

Questions closed set of responses from which to choose.

- It is also simplifying coding, analysis and interpretation of data

Team uses special programs, charts, diagrams

Questions make data collection and analysis much simpler and they take less time to answer.

#### **4. Data analysis with critical thinking and discussion;**

##### 4.1 Data collection

##### 4.2 Data analysis

#### **4.1 Data collection**

For my research paper the data collection I used (Kazwaste website, application - ecocity, Instagram eco accounts in Kazakhstan). As an example, were taken success companies from different countries (Japan, Sweden, France, Germany, and Switzerland). Kazakhstan Stock Exchange (KASE) web site where are some list of public companies. These companies have all-important information about their company, such as company's logistics, social media, website, type of solid waste they take. The fieldwork will include qualitative and quantitative research methods such as one-on-one in-depth interviews, onsite intercept and online surveys. Administering the questionnaires, intercept surveys, online survey

#### **4.2 Data Analysis**

Analysis of data is the most important part of thesis.

I have analyzed and compared the data about recycle companies during the period from November 2019 to March 2020.

And according to this information I created appropriate outputs for my thesis as tables and graphs. Content analysis will be used for qualitative information like in-depth interviews, online and intercepts surveys to gain insights and understand the underlying problems of the waste recycling. In addition, statistical analysis will be used for quantitative information such as surveys. Content analysis will include interpretation of textual and verbal information produced by the respondents and comparison against the hypotheses. Statistical analysis will be based on decoding and interpreting answers based on the chosen scaling and measurement techniques and then compared with the suggested hypotheses.

### **Analysis and Findings**

30 interviews were conducted

300 people interviewed (via test).

Of these 300, only 4 people sort the garbage and bring it to eco-points

### **Summary, conclusion and recommendations**

Summary. In our country, people have a very low interest in recycling second raw materials, only 1.3 percent of the population cares about the environment and sort garbage.

It is necessary to take measures to educate our citizens in favor of the environment.

Conclusion. Sorting second raw materials is difficult. It will take several decades until we come to a good waste management system.

### Recommendation

Recycling is a long process.

The process of sorting second raw materials begins with the childhood. Schools and universities should have special courses that teach student how to sort second raw materials. It is necessary to train and accustom the population to sorting garbage through the media. It is important to establish contact with the population. To do this, many different media methods should be introduced. Such as instructional videos, benefits, prizes, etc. Need to establish more eco points in cities

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# **“THE IMPACT OF THE AIRLINE TRANSPORTATION ON GDP IN KAZAKHSTAN”**

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## **Introduction**

Economic activities shape the investments, the trade and the transportation through the channels of logistics which are an inevitable result of accelerated globalization and natural effects of the developments in many countries. Increase in the demand of the air transportation advances every passing day as a result the globalization.

Logistic channels for cargo and passengers have been developed in the last century as a result of the developments in technology but especially after II. World War, it was a new period. After the aviation affected the mobility of the passengers and cargo as aircrafts were no more war instruments but already several pragmatic jumps had been achieved during the war. With the higher mobility advantage of this new aviation are has been shaped since Chicago Convention which has been shaping aviation in the international level but it was also a key start point how to coordinate the complex processes the world-wide countries.

Hence the economies of the countries developed not only in the domestic markets but also international integration of those economies has connected to each other through logistic channels and mainly the transportation had a key role with the effect of the liberalization coming within the globalization period.

## **A Brief Overview on the Air Transportation Industry in Kazakhstan**

The transport sector of Kazakhstan includes rail, road, inland water, aviation and pipeline transport. Roads, railways and air transportation play an important role in the implementation of intergovernmental and interstate relations. Investments in fixed capital of transport and storage accounted for 1.2% of GDP in 2018. Transport plays an essential role in the implementation of interstate relations, especially within the Central Asian region. Given its location, Kazakhstan has the potential to be a significant transit country. Currently, this potential has not been fully exploited. Kazakhstan stands in a good position to capitalize on cargo flows between Europe and Asia. At present, Chinese transit through Kazakhstan is small, since the bulk of imports from China to the European Union follow the southern sea route. To attract further transit cargo flows, Kazakhstan needs to create modern transport Infrastructure

Aviation has a key place in the transport sector considering the large territory of the country and the availability of 23 airfields. Kazakhstan is improving the level of service and competitiveness of its air transport companies. By 2021, 18 airfields will comply with ICAO requirements.

However at the end of 2016, the Ministry of Investment and Development recognized as unprofitable seven airports in the cities of Semey, Taraz, Zhezkazghan, Taldykorgan, Kokshetau, Petropavlovsk and Balkhash. Currently, these airports serve from 7 to 70 thousand passengers per year. They cannot reach the annual threshold of 100 thousand passengers. According to the results for 2016, the most profitable airports were Almaty and Astana. They served 70% of all passengers in the country. In this regard, regional airports are looking for new sources of revenue. In Petropavlovsk and Taraz, they plan to work mainly with cargo transport with neighbouring States, primarily with China, given that the cargo sector at airports is usually profitable.

The volumes of cargo transport and air cargo turnover in Kazakhstan have not been stable. The data in table 1 show that before 2009 the volumes fell, then for two years there was growth, and in the last five years there has been no discernable pattern.

Table 1: Basic performance indicators for air transport

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total cargo transported, mln. tonnes	2 124.2	2 188.7	2 103.3	2 439.4	2 974.9	3 231.8	3 508.0	3 749.8	3 733.8	3 729.2	3 946.1
including:											
by air transport, th. tonnes	25.7	22.7	22.0	28.9	31.6	21.9	23.9	19.1	17.2	18.0	22.5
Cargo turnover, billion tkm	350.5	369.7	337.0	385.3	448.8	478.0	495.4	554.9	546.3	518.6	564.0
including:											
by air transport, mln. tkm	88.1	69.4	67.6	90.1	92.6	59.5	63.1	49.3	42.7	42.9	53.8
Passengers carried, mln. people	11 160	11 325	11 806	13 186	16 647	18 485	20 004	21 281	21 839	22 333	22 720
including:											
by air transport	2.7	2.8	2.7	3.4	4.1	4,5	5.0	5.4	5.9	6.0	7.4
Passenger turnover, mln. pkm	124 366	127 455	130 834	149 065	188 939	213 036	235 738	246 959	251 251	266 784	272 832
including:											
by air transport	5 457	5 495	5 303	6 469	7 838	8 623	9 688	10 586	11 153	11 313	14 384

Source: Transport in Kazakhstan 2007-2017. Statistical collection. Astana.<http://stat.gov.kz>.

The data in table 1 show that cargo transport by air has not been the focus of the sector. Despite the fact that in Astana, Almaty and Shymkent large transport and logistics centers have been built, intermodal transport involving air transport has not been sufficiently exploited.

Unlike air cargo transport, the volume of passenger transport during 2007-2017 grew constantly as did passenger turnover. In 2017 there was an increase in passenger turnover by 27.1%.

There was a significant increase in the volume of cargo transport in 2017. Cargo transport to Western and Southern Kazakhstan resumed. However, in general, goods were transported to/from Almaty (more than 90.6%) (table 2).

Table 2: Cargo and luggage carried by air transport, tonnes

	2012	2013	2014	2015	2016	2017
<b>Kazakhstan</b>	<b>21 954.2</b>	<b>23 873.5</b>	<b>19 082.4</b>	<b>17 178.2</b>	<b>18,015.9</b>	<b>22531,0</b>
Western Kazakhstan	183.0	227.2	239.4	131.0	x	x
Southern Kazakhstan	768.0	1 062.0	978.0	x	x	x
Eastern Kazakhstan	5.8	-	-	-	-	-
Astana city	-	-	-	-	-	-
<b>Almaty city</b>	<b>20 997.4</b>	<b>22 584.3</b>	<b>17 865.0</b>	<b>15 956.2</b>	<b>16 810.9</b>	<b>20432,0</b>

Over the last five years the volumes of goods carried by air in international and domestic transport were approximately the same. However, starting from 2014, domestic transport grew faster (table 3).

Table 3: Basic performance indicators by type of air transport

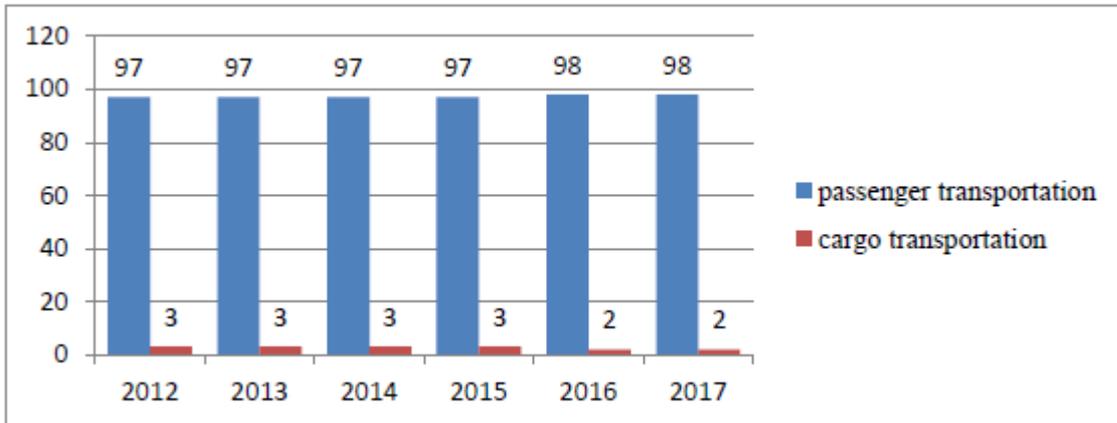
	2012	2013	2014	2015	2016	2017
<b>Cargo, luggage tonnes</b>	<b>21 954.2</b>	<b>23 873.5</b>	<b>19 082.4</b>	<b>17 178.2</b>	<b>18 015.9</b>	<b>22531.0</b>
including:						
International	11 514.3	12 287.0	9 345.0	8 247.0	8 169.0	10272.0
CIS countries	2 522.0	3 444.0	5 606.0	2 810.0	-	-
countries outside the CIS	8 992.3	8 843.0	3 739.0	5 437.0	-	-
domestic	10 439.9	11 586,5	9 737.4	8 931.2	9 846.9	12259.0
<b>Freight turnover, mln. tkm</b>	<b>59.5</b>	<b>63.1</b>	<b>49.3</b>	<b>42.7</b>	<b>42.9</b>	<b>53.8</b>
including:						
International	43.1	45.4	35.8	30.7	30.7	38.8
CIS countries	2.8	10.0	19.0	7.6	-	-
countries outside the CIS	1.7	35.4	16.8	23.1	-	-
domestic	16.3	17.7	13.5	12.0	12.2	15.0

Considering that the average distance of carriage of goods in international traffic is greater than in domestic traffic, freight turnover in international traffic is accordingly much higher than in domestic traffic.

Analysing the transport of goods by type of countries, it can be stated that non-CIS countries accounted for more cargo than the CIS countries, particularly in 2015 where three-quarters of the turnover was outside CIS countries.

Airlines receive almost all their revenue from passenger transport. Transport of goods represents a very small percentage of their revenues.

Figure 4: Revenues of air transport enterprises from cargo and passenger transport



The lack of interest of air carriers in cargo transport is also due to the fact that even in large international airports there are no cargo terminals and equipment capable of automatically processing goods. In addition, customs services are not sufficient to handle export-import cargoes, transport and warehouse logistics in air transport are not developed, personnel working at cargo terminals are not trained and many other factors are hampering the growth of transport of goods by this promising mode of transport. The presence of international transport and logistics hubs and centers in the cities of Almaty, Shymkent and Astana has led to the promotion of cargo transport by various modes of transport, including with the participation of air transport.

Currently, specialists in Kazakhstan highlight the following challenges for the transport sector: limited international transport, restricted technological development, underdeveloped intermodal transport, a low level of transport and logistics services, insufficient number of vehicles and an outdated fleet. In addition, logistics, which contributes significantly to GDP in developed countries, is still in its infancy in Kazakhstan. To address these challenges the Government is focusing on the future development of transport networks in Kazakhstan. This is confirmed by the implementation of state programmes for the development of transport.

## Literature Review

The Air Transportation is one of the important transportation modes that provide the integration of the marketplaces removes the barriers between the economies and shortens the distances in a most efficient way from the time perspective. Economic activities shape investments, trade and transportation through the channels of logistics which is also an inevitable result of accelerated globalization and naturally effects the developments in the countries.

In the literature, there have been a few studies indicating the causal analysis between the air transport and economic growth for developing countries which is the potential reason for the

growth in the air transport demand. There have been many studies issued by many researchers over the last decade.

Gerard de Jong and et all. (2005), they analyzed the Uncertainty in traffic estimates analyzed with Dutch national model system (LMS) and the national model for (NRM) Noord Brabant by using time series method. They found a various methods rather than input uncertainty.

Mariya A. Ishutkina and R. John Hansman (2009), they analyzed the individual country level to indicate the development model differences between air transportation passengers and GDP for 139 countries. The result of the study reveals that the individual country level is important for determining the effect of air transport for each economy.

Yu-Hern Chang and Yu-Wei Chang, (2009), in their study; the relationship between the expansion of air transport and economic growth has been explored in Taiwan over the period 1974-2006. The results of the empirical analysis show that there is a long-run equilibrium between Taiwan's expansion of air transport and economic growth and a bi-directional relationship between them.

M., Hakim and R. Merkert (2016) examined the causal relationship between air transport and economic growth in the South Asia. The result of their study establishes the existence of a long-run unidirectional causality relationship that extends from GDP to air passenger traffic, as well as air transport volumes. Contrary to the current literature, they have not found a long-run and bi-directional causality that confirms the importance of spatial dimensions.

J. Westin and et all. (2016), they analyzed the uncertainty and economies of scale of the Swedish domestic freight transport system. The results show that by shifting the logistics model predominantly to freight transport, new logistics solutions for larger demand can be found.

### **Methodology and Empirical Findings**

This study aims to analyze the relation between economic growth and air traffic in Kazakhstan. The ordinary least squares (OLS) technique was used to estimate the parameters of the model. Data used in the analysis has obtained from Statistical collection. Astana.<http://stat.gov.kz> for the period 2003-2018. There were 16 observations for the selected period in Kazakhstan. Particularly, the analysis is used to explain (1) how cargo flow of air transport, goods and services flows affect economic growth in Kazakhstan and (2) how the air transport flows can affect the factors and demand conditions of Kazakhstan.

Table 5. Results of the Ordinary Least Squares (OLS)

Dependent variable :LGDP	
Constant	0,0007***
	0,118342

LYT	0,0116**
	0,2857
n	16
F Statistics	7,191248
D-W Stat	1,98
R2	18,83%

Notes: (\*\*\*) , (\*\*) and (\*) denote the significance level of 1 per cent, 5 per cent and 10 per cent, respectively.

In this model; GDP is a dependent variable - where it indicates the economic growth of Kazakhstan. Air Transportation demand is the independent variable which indicates millions of tones carried. The result of the analysis shows that there is an autocorrelation between GDP and Air Transportation demand. A number of alternatives have been developed which can capture autocorrelation in the moment conditions by Generalized Method of Moments (GMM). Variables are stationary at the 2nd difference.

There is no heteroscedasticity hence it was determined by Wald Test for the model. In the most recent studied model, deviations from the assumptions have been controlled in the classical regression analysis and no deviation has been found. It has been discovered that the %18 of the increase in GDP was sourced because of the increase in the GDP. The model that has been used in the analysis is statistically significant.

As air transportation demand increase has a positive effect on the increase in the GDP, %1 increase in air transportation has been resulting in a %0.76 increase in GDP as shown in Table 5

## Conclusion

In the historical background, developments of the air transportation have a significant role in the social and economic development as a result of the development in the mobility of the freights. In this study, the effect of air transportatio demand on the GDP has been analyzed. The increase in the air transportation demand is explaining a slight part of the increase in the GDP and it is a positive relationship in the same direction. GDP is the total money value of all products and services produced in the country. Both of the air freight and the transportation of the passengers has a positive effect on the GDP.

Air transport creates economic growth by facilitating tourism and trade, provides job opportunities, improves living standards and alleviates poverty and increase incomes from taxes. Efforts to develop demand forecasts by making the right planning to allow healthy development of the air transportation sector, which survived from the global financial crisis, are important for making concrete investment decisions. Thus, it contributes to sustainable economic development.

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# **“Analysis of green bonds return comparing to conventional standard bonds: yield difference and index level analysis”**

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## **Introduction:**

Nowadays environmental issues have become one of the most significant problem around the world. Global warming, continuous growth of population, air and water pollution, scarcity of resources, toxic waste and many other problems are major threats to the world and future generations. All over the world governments have to control climate changes by social and economic sources as it has significant impact on the economy of the country. Extreme weather can damage operations of supply chain, transportation, factories and many other infrastructure. In addition to that, according to the Global Energy & CO2 status report (2019) gas emissions rose dramatically by 1.7% due to high energy consumption and went to a point of a historic high. United States, China, and India contributed around 85% of the total increase. Important step toward solving environmental problems was signing of Paris Agreement in 2015. Upon that agreement representatives of 197 countries comply to reduce gas emission in order to keep global temperature rise below 2 degrees Celsius above pre industrial level and to pursue efforts to restrict increase to 1.5 degree Celsius further. To achieve the target, according to the IEA (2014) it was estimated that USD 53 trillion of investments are required by 2035. The major question now is how funds should be raised in order to meet the requirements.

Moreover, recent bushfires in Australia burned around 7.7 million acres of land, destroying over 5900 buildings and killing almost 500 million animals. Tourism, farming and consumer consumption suffer dramatically. Economic costs of bushfires in Australian estimated in hundreds millions of dollars, 2306 insurance claims with total worth of \$240 million have been made up December 2019 (Insurance Council of Australia, SGS Economics 2020).

In the last years, many activities have been moved forward sustainable and environmentally friendly investments. One of the most notable action was World Economic Forum 2020 in Davos. Leaders from diverse sectors of global economy come together to find solutions for most significant challenges in the world nowadays. The theme of the meeting was Stakeholders for Cohesive and Sustainable world aiming to give concrete and exact meaning to “stakeholder capitalism” and assist international institutions and governments to move toward Paris agreement execution. Executives in Davos highlighted that nowadays everything is changing and people have to move their focus on resources scarcity and to stop carbon dioxide and greenhouse emissions because it has dramatic

effect to the whole world and future generations. The most notable thing accomplished during the World Economic Forum was unprecedented commitment of investors to net zero emissions. 22 of January The United Nations convened Net-Zero Asset Owner Alliance and added three national investments bodies of the Church of England and Italian group Generali responsible for more than \$2.4 trillion in investments to carbon neutral investments portfolio by 2050. Furthermore, following the Paris Green Bond statement (2015) investment managers who represent \$11.2 trillion of asset owned agreed to work together to foster the development and expansion of emerging green bond market.

Green bonds represent fixed income securities issued to finance climate or environmental projects. More precisely, green bonds aims at energy efficiency, prevention of pollution, protection of ecosystem, clean transportation, water management and far more environmentally friendly projects.

In late 2007 a group of Swedish pension funds expressed their wish to invest in a projects that would contribute to the global change in the environment, and year from that, the World Bank issued first green bonds showing that climate changes could be challenged through safe investments without sacrificing financial returns. The World Bank green bonds lay the foundation for the Green Bond Principles (GBP) under the coordination of the International Capital Market Association (ICMA). GBP clarify the procedure for Green Bonds issuance and, in fact, a voluntary guideline that promote integrity in the marker development and recommend reporting, transparency and disclosure. GBP focuses on four main components use of proceeds, process for project evaluation and selection, management of proceeds and reporting.

Nowadays green bond market become one of the most fast growing segments. As of end of October 2019 green bonds and loans issued were amounted to \$ 202.2 bn.(1) and the goal for 2020 is to the reach the amount of \$ 1 trillion. However, several concerns and bottlenecks have negative effect on the evolution of green bonds. The main hurdles for further growth is the lack of common green bond definition and framework identifying what does it mean to be “green”. “Greenwashing” is one of the major threat, investor need to distinguish real green bonds from those labelled green but proceeds from which are invested not in a green projects. Consequences might be loss of credibility and as a result market collapse. In fact, there is no legal confidence that bonds labelled green is going to be green for the entire time till maturity. Moreover, in case green bonds does not prove to be green, investors have no real contractual protection and no legally binding resource to pursue. Failure to use proceeds of bonds on a stated green purposes, non compliance or inadequate reporting are not subject to default or put effect. Bondholders could not accelerate or redeem bonds

in the event of transgression. One example of bad case scenario for green investor could be the Mexico City Airport green bonds. In 2006-2007 \$6 billion of green bonds were issued for the construction of the new airport. Bonds met the requirements of Green Bond Principles, have secondary party opinion from Sustainalytics; moreover, greenness of the project was approved with Moody's and S&P agencies but in October 2018, by a public referendum, new government stopped the construction and launched a payback in amount of \$1.8 billion. Outstanding bonds are still have green label but use of proceeds are under considerable doubt.

### **Literature review**

Many authors address the characteristics and performances of green bonds, evaluating the main differences between green and conventional standard bonds, as one of the main and fast growing financial instruments. Among these are Rommel (2016) and Bauer (2014) both of which evaluated environmental factor that affect the financials of the investors and company as a whole. The focus of the work of David Zerbib (2018) was on the yield differential between green bonds and identical synthetic conventional bond. The results showed that yield on green bonds is lower than that on the conventional and have a small negative premium. The main determinants for the difference are the rating and sector. To make a comparison the author took the database of 135 green bonds, and create similar synthetic conventional standard bonds with the closes characteristics and conducted a matching procedure to reveal the differences in yields. The analysis showed a small negative premium for green bonds comparing to its closest neighbor; precisely, the bonds with low ratings tend to have greater negative premium, which in fact neither risk or market premium. Two limitations of the research stated by author was firstly controlling for bid ask spread removing effect of liquidity, as bonds may not be frequently traded, example here could be pension funds and insurance companies, which are bought and hold till maturity. The second limitation is quality of data because yield may not reflect the fair value of bond as, it is stated before, some of them not frequently traded.

According to the work of Maria Jua Bachelet, Leonardo Becchetti and Stefano Manfredonia (2019) the difference in yield could arise from two main parameters – type of issuer, precisely issuer reputation, and the verification of the third party on the greenness of the bond. The analysis conducted matching procedure of green bond with its closest brown neighbor. In case of absence of the brown bonds that suited the best, synthetic bonds were created. Bonds were examined by three main characteristics – yields, volatility, and liquidity. The analysis was provided by constructing three hypothesis:

1.  $H_0$ : no green premium. Rejection of the hypothesis may be due to the several factors, one of which is that investors are willing to pay more for environmental features of the bond, and the second is that information asymmetry increase the risk of greenwashing, as a results investor may require a premium to cover the risk.
2.  $H_1$ : no difference in liquidity in the secondary market. Here the null hypothesis states that no difference exist between green and conventional brown bonds. If null hypothesis is rejected and yield difference exist trading frequency of the bond may be the trigger for that, as bonds with higher frequency have more potential buyers.
3.  $H_2$ : no difference in yield volatility in the secondary market. Here under the null hypothesis there should no difference in risk between bonds with the same characteristics. Here again greenwashing effect could be considered as green bonds are revealed to the risk that bonds labelled “green” may not be actually green for the entire life.

Findings of the authors suggest that institutional green bonds (ex. World Bank) may have small negative premium and are very liquid; while private green bonds have positive premia but less favorable characteristics in terms of volatility and liquidity comparing to the closest brown neighbor. Moreover, issuer’s reputation or third party verification are key to the reduction of information asymmetry, reduce greenwashing effect and as a result create more convenient and favorable financing condition.

Relation of literature review to research proposal:

The work of authors follow to the result that there is a small difference in the yield of green and conventional standard boards depending on the rating, issuer reputation, third party verification on the greenness of the project and type of issuer. First of all I decided to check whether there is a yield difference between green and standard bonds as of December 2019. For that reason I downloaded all green bonds on December 2019. After that I traced to them standard bonds with the closest characteristics; precisely, issuer, issue date, maturity with difference for no more than 6 months, currency and rating. Later on I calculated monthly mean yield to maturity from January 2014 till the December 2019 and calculated whether any difference exist. The results I checked with the T test on statistical significance of the difference. For that reason I constructed 2 hypothesis.

$H_0$ : There is no difference in yield between green and standard bonds

$H_a$ : There is a difference between green and standard bonds

Table A shows 5 pairs of bonds as an example.

## Table A

We got 27 pairs of green and closest standard bonds. From the calculations, I can conclude that yield difference are statistically insignificant. To prove the null hypothesis I determine T calculated on each pair of bonds and it is much less than T critical which is equals to 2.000 (with  $\alpha=5\%$  level of significance).

$$T_{\text{calculated}} = \frac{M1 - M2}{(S^2 * (1/N1 + 1/N2))^{1/2}}$$

$$S^2 = \frac{(N1 - 1) * S1^2 + (N2 - 1) * S2^2}{N1 + N2 - 2}$$

Considering all that we do not reject the null hypothesis, there is no difference in yield between green and conventional standard bonds. My results are differ from the previous research of Zerbib (2018) and Bechetti (2019) that stated that there are small difference in yield may arise due to limited data observed. From the whole database of 2147 green bonds I took only 344 randomly selected bonds with 95% confidence level and from that selection there were only 27 pairs of green and standard bonds with the best matching.

In my research, I also wanted to investigate whether there are any dependence that have standard bonds on green one. For that reason, index analysis was constructed. I downloaded from Bloomberg 8 indexes, precisely S&P GCSI spot, S&P GSCI total Return CME, MSCI Asia, MSCI World, and MSCI EM for stocks indexes, Bloomberg Barclays Aggregate Total Return Index, S&P Green Bond Index Total Return and Bloomberg Barclays Global Green bond Index (Bloomberg 2020). Then I conduct correlation analysis and evaluated at what percentage does bond and stock indexes are interdependent, the main interest for us is interdependence between green and standard conventional bond. If coefficient correlation less than 1 then we can conclude that, there should be diversification component. Table 1 provides the results. The highest correlation are between S&P Green Bond Index and Bloomberg EM, which is equal to 65%. The second pair is S&P Green Bond Index and MSCI EM equals to 61%.

After that, I evaluated overall significance of the model by making regression analysis and defining what indexes affects the S&P Green Bond Index. I divide the analysis into 2 parts taking into consideration US investor and international investor. For that reason, I took S&P Green Bond Index, Bloomberg EM, and S&P B RIC 40 for US investor (Bloomberg 2020). For international one I took S&P Green Bond Index, MSCI Asia, and MSCI World (Bloomberg 2020). Table 2 and Table 3 accordingly provides the results.

To evaluate overall significance of the model we use F test.

H0: Coefficients are statistically insignificant

Ha: At least one coefficient is statistically significant.

Ho states that all coefficients in regression are statistically insignificant, on the same time alternative hypothesis Ha states that at least one coefficient is statistically different from 0. According to the results provided by Table 2, we see that F stat equals to 23.29 with minor p value which is less than 5% level of significance. To sum up we can conclude that regression has right functional form and at least one coefficient is statistically significant. According to the obtained results from Table 3, F stat equals to 13,633 with negligible p value (significance F) which is less than 5% level of significance. Then we can conclude that regression has right functional form. At least one coefficient is statistically significant.

Considering the limitation of my research the most important is sample size, I matched only 27 pairs of green and standard conventional bonds with the closest characteristics. A large data sample could give more accurate results, considering yield difference. The same limitation I face considering index level analysis. The main constraint here is constituents of green bond indexes and the use of yield to maturity. Since green bonds are not traded frequently, such yield may not reflect the fair value of green bonds.

## Tables

1.

	S&P GSCI spot	S&P GSCI	MSCI Asia	Bloomberg EM	MSCI EM	S&P BRIC 40	MSCI 2	MSCI	S&P Green bond index	Bloomberg Barclays MSCI
S&P GSCI spot	1									
S&P GSCI	0,990748901	1								
MSCI Asia	0,445445899	0,442910296	1							
Bloomberg EM	0,293036957	0,290816264	0,592558686	1						
MSCI EM	0,468348534	0,463893777	0,958027116	0,664631553	1					
S&P BRIC 40	0,546181781	0,547669347	0,935038856	0,602172045	0,94449108	1				
MSCI 2	0,484384273	0,487471569	0,792678888	0,509420744	0,784593687	0,785040431	1			
MSCI	0,487357914	0,489935314	0,792888369	0,509563987	0,7828449	0,784290202	0,999772253	1		
S&P Green bond index	0,208190034	0,219734873	0,546595803	0,648355244	0,611378564	0,536947975	0,325364058	0,323484046	1	
Bloomberg Barclays MSCI	-0,237592043	-0,232181465	-0,024125346	0,475130884	-0,023445025	-0,105243488	-0,050240847	-0,047184438	0,369089731	1

2.

SUMMARY OUTPUT								
<b>Regression Statistics</b>								
Multiple R	0,673831496							
R Square	0,454048885							
Adjusted R Square	0,434550631							
Standard Error	0,009897459							
Observations	59							
<b>ANOVA</b>								
				Fisher coefficient (dist p value)				
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	2	0,004562305	0,002281152	23,28664312	4,36823E-08			
Residual	56	0,005485743	9,79597E-05					
Total	58	0,010048048						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	-0,001238975	0,001392734	-0,889599636	0,377486639	-0,004028957	0,001551006	-0,004028957	0,001551006
Bloomberg EM	0,533713313	0,129444259	4,123113058	0,000124912	0,274405303	0,793021322	0,274405303	0,793021322
S&P BRIC 40	0,055324758	0,029763789	1,858794152	0,068314235	-0,004299277	0,114948793	-0,004299277	0,114948793

3.

SUMMARY OUTPUT								
<b>Regression Statistics</b>								
Multiple R	0,575714798							
R Square	0,331447529							
Adjusted R Square	0,30713653							
Standard Error	0,011028069							
Observations	58							
<b>ANOVA</b>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	2	0,003316202	0,001658101	13,63364497	1,5532E-05			
Residual	55	0,006689007	0,000121618					
Total	57	0,010005209						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	0,00176385	0,001507409	1,170120278	0,246998056	-0,001257065	0,004784765	-0,001257065	0,004784765
MSCI Asia	0,228026795	0,052510887	4,34246703	6,10184E-05	0,122792626	0,333260965	0,122792626	0,333260965
MSCI	-0,118676435	0,070585654	-1,681310982	0,098373318	-0,260133245	0,022780376	-0,260133245	0,022780376

overall significance of the model: we use F test Ho state that all coefficients in t according to obtained results F stat=13,633 with negligible p value (significance) then we can conclude that the regression has the right functional form.  
at least one coefficient statistically significant.  
T test help us to estimate statistical significance of each individual coefficient in t Ho states that coefficient is statistically not different from 0  
Ha otherwise

4.

SUMMARY OUTPUT								
<b>Regression Statistics</b>								
Multiple R	0,575714798							
R Square	0,331447529							
Adjusted R Square	0,30713653							
Standard Error	0,011028069							
Observations	58							
<b>ANOVA</b>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	2	0,003316202	0,001658101	13,63364497	1,5532E-05			
Residual	55	0,006689007	0,000121618					
Total	57	0,010005209						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	0,00176385	0,001507409	1,170120278	0,246998056	-0,001257065	0,004784765	-0,001257065	0,004784765
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<https://www.worldbank.org/en/news/immersive-story/2019/03/18/10-years-of-green-bonds-creating-the-blueprint-for-sustainability-across-capital-markets>

# “Determinants of Foreign Direct Investment in Agricultural Sector of Kazakhstan”

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## Abstract

Kazakhstan, among other developing countries, has made considerable efforts in attracting FDI for the past years, particularly in agricultural business, understanding the strategic importance of the sector and effect of FDI on sector development. There is growing evidence, both conceptual and empirical, that investing in developing countries' agricultural sector is among the most efficient ways to generate economic benefits to host countries. However, after analysis of the existing literature, it was found out that there is lack of research regarding motivations of FDI inflows on the sectoral level in Kazakhstan. Therefore, grounded on the Dunning Eclectic theory, this paper investigates the economic determinants of foreign direct investment in agricultural sector of Kazakhstan.

Following a quantitative method, the study uses secondary data that cover the period during 2009 – 2019. The data was obtained from *The Ministry of National Economy of the Republic of Kazakhstan Statistics Committee*, The National Bank of the Republic of Kazakhstan, The World Bank and the Organisation for Economic Co-operation and Development (OECD). The collected data were analysed using the Ordinary Least Squares (OLS) estimation technique.

Research results, presented in the paper, suggest that country's market size and labor cost significantly determines FDI inflows. Although infrastructural development does not significantly predict FDI, it has a positive relationship with FDI inflows. Based on the empirical findings, the authors draw conclusions and policy recommendations for attracting and maintaining sustainable inflow of FDI to agricultural sector in Kazakhstan.

*Key words: foreign direct investments, agriculture, economic determinants, developing countries, Kazakhstan*

## Introduction and objective

Current economic development trends are characterized by increased competition, globalization of markets and concentration of capital (Singh & Zammit, 2019). A significant role in the development of the economies of developing countries is played by the attraction of foreign direct investment (FDI) (Jude & Levieuge, 2017; Samimi et al, 2017). There is enormous competition between the countries for FDI, since they positively affect the economy of the recipient

country. In addition to the direct effects of an increase in GDP, budget revenues, and a decrease in unemployment, foreign direct investment also indirectly has a positive effect on the host country in the form of new knowledge, transfer of experience, and the spread of technology (Herzer & Donaubauer, 2018; Filippaios et al, 2019; Li & Tanna, 2019).

Kazakhstan, among other developing countries, has made considerable efforts in attracting FDI for the past years, particularly in agricultural business, understanding the strategic importance of the sector and effect of FDI on sector development (Sovereign Wealth Fund “Samruk-Kazyna”, 2018.). Over the years of independence, Kazakhstan has attracted \$ 320 billion of foreign direct investment (FDI). According to the results of the 1st quarter of 2019, the gross inflow of FDI to Kazakhstan amounted to \$ 6 billion (*National Company Kazakh Invest*, 2019). It is becoming easier to invest in Kazakhstan, confirmation of this - in 2019 Kazakhstan entered the top 30 leaders in the ranking of "Ease of Doing Business" for the first time (World Bank Group, 2020). Despite of this, foreign direct investment flow in Kazakhstan decreased by 11.5 percent in 2019. Therefore, the study of the determinants of FDI is of research interest.

There is growing evidence, both conceptual and empirical, that investing in developing countries' agricultural sector is among the most efficient ways to generate economic benefits to host countries. However, after analysis of the existing literature, it was found out that there is lack of research regarding motivations of FDI inflows on the sectoral level in Kazakhstan.

Therefore, grounded on the Dunning Eclectic theory, this paper investigates the economic determinants of foreign direct investment in agricultural sector of Kazakhstan. The objectives of the research are:

1. Analyze the inflow of the foreign direct investment to the Kazakhstan in the 2009-2019 period, particularly in agricultural sector.
2. Investigate the determinants of the foreign direct investment inflow to agricultural sector in Kazakhstan.
3. Provide policy recommendations for attracting and maintaining sustainable inflow of FDI to agricultural sector in Kazakhstan

Thus, we raise the following research question: What are the determinants of foreign direct investment in agricultural sector of Kazakhstan?

### **State-of-art**

Direct investment is a category of international investment, as a result of which resident investors of one economy receive significant control or the possibility of influencing the management of investment objects that are residents of another economy (The National Bank of the Republic of Kazakhstan, 2020).

One of the most famous modern theories, claiming to be an exhaustive explanation of the reasons for the growth of foreign direct investment and the emergence of multinational companies, is the Dunning Eclectic theory also known as the OLI framework (Wagner, 2020). Historically, theories of international trade and the movement of factors of production between countries existed separately. Dunning tried to combine them in a single theoretical model. According to his theory, TNCs arise from the realization of three advantages: Ownership (O), Locational (L), and Internalization (I) advantages as the key motivations for FDI (Grosse & Meyer, 2019).

First, the company should have a unique competitive advantage, for example, a patent or a trademark, which allows it to successfully operate in the foreign market (ownership advantage). Then, from the firm's point of view, the operation of foreign production assets should be efficient plus assets in their own country or instead of them (location advantage) (Grosse & Meyer, 2019). The reasons for the advantages of the location may be transportation costs, the need to provide services on the spot, circumventing tariff and other restrictions, access to the best "price-quality" ratio of production factors, etc. Finally, the company should prefer its own control over the operation of a foreign production asset to a contract for use by an external company (advantage of internalization) (Rogach, 2019).

The Dunning Eclectic theory (OLI framework) has been noted as the classical framework by most studies (Paul & Jadhav, 2019; Kapuria & Singh, 2019; Andrašić et al, 2019; Nielsen, 2018; Gupta, 2018; Wadhwa & Reddy, 2011; Assunção, 2011) in explaining the determinants of foreign direct investment. This paper is grounded on the OLI framework, using FDI as a dependent variable; and the economic determinants explained in the theory, such as market size, inflation, exchange rates, lower labor cost and trade openness, as independent variables in the model of the study.

Thus, the hypothesis of the study are as follows:

H1: Exchange rate significantly predicts FDI inflows in agricultural sector of Kazakhstan

H2: Market size significantly predicts FDI inflows in agricultural sector of Kazakhstan

H3: Inflation significantly predicts FDI inflows in agricultural sector of Kazakhstan

H4: Labour costs significantly predicts FDI inflows in agricultural sector of Kazakhstan

H5: Trade openness significantly predicts FDI inflows in agricultural sector of Kazakhstan

H6: Infrastructure development significantly predicts FDI inflows in agricultural sector of Kazakhstan

### Research methodology and data collection tool

Following a quantitative method, the study uses secondary data that cover the period during 2009 – 2019. The data was obtained from *The Ministry of National Economy of the Republic of Kazakhstan Statistics Committee*, *The National Bank of the Republic of Kazakhstan*, *The World Bank* and the *Organisation for Economic Co-operation and Development (OECD)*.

FDI in agricultural sector (FDI) considered as dependent variable; and market size, labor cost, exchange rate, inflation and trade openness are independent variables (Table 1). The collected data were analysed using the Ordinary Least Squares (OLS) estimation technique.

Variable	Definition
FDI	Annual net inflow of FDI in agricultural sector
Market Size	Gross Domestic Product (GDP)
Exchange Rate	Real exchange rate
Trade Openness	Sum of imports and exports divided by GDP for a period
Inflation	Consumer price index
Labor Cost	The average wage rate
Infrastructure development	Government investment expenditure on transport and telecommunication

Table 1. Variables and measurement

### Data analysis with critical thinking and discussion

Table 2 summarizes the Ordinary Least Squares (OLS) regression results analysis on the determinants of agriculture sector level FDI in Kazakhstan.

Model 1	t-statistics	Significance
(Constant)	0.592	0.581
Exchange rate	-0.796	0.338
Inflation	-0.120	0.983
Infrastructure	2.031	0.0816

<i>Labour cost</i>	-2.680	0.0269*
<i>Market size</i>	2.893	0.0187*
<i>Trade openness</i>	0.703	0.498
<i>R<sup>2</sup></i>	0.685	
<i>Adjusted R<sup>2</sup></i>	0.401	
<i>DW Statistic</i>	2.21	

*\*a significance level of 0.05*

Table 2. Ordinary Least Squares (OLS) regression results.

Chin (1998) recommended R square values for endogenous latent variables based on 0.67 (substantial). Thus, the results obtained in Table 2 indicate that the dependent variable, i.e. FDI in agricultural sector, and the independent variables in the regression models fit well as the R<sup>2</sup> values equate to 0.649. The Durbin-Watson statistic value is equal to 2.21, which means that there is no autocorrelation detected in the sample.

The outcomes show that market size, exchange receptiveness, and foundation advancement have positive coefficients demonstrating a positive and direct relationship with horticulture division FDI. This demonstrates a huge development in these factors will prompt more inflows of FDI in the Agriculture segment. Swapping scale, expansion, and work cost then again are seen as adversely identified with Agriculture area FDI depicting that an expansion in the measure of these factors will achieve a decline in the inflows of FDI in the Agriculture segment. At 5% level of noteworthiness, market size and labor cost are seen as factually huge, accordingly fill in as the significant determinants of FDI in the farming segment of Kazakhstan.

### **Summary, conclusion and recommendations**

FDI has made a huge commitment to the economy improvement of Kazakhstan. The measure of FDI in the nation has expanded considerably throughout the years with every division contributing enormously to the monetary development of the nation. This study exactly inspected the noteworthy variables affecting the inflow of FDI into the agricultural sector of the economy of Kazakhstan. From the results of this research, the FDI inflow in the agriculture is significantly affected by market size and labor cost.

The result of this investigation presents significant ramifications for policy makers. Right off the bat, it is essential to take note of that, since the nation's market size altogether decides FDI inflows, it is basic for the administration to actualize techniques that will improve development in the nation's Gross Domestic Product. In addition, the centrality of work cost in deciding FDI in the agriculture has a strategy suggestion. So as to pull in more FDI into the nation, partners, for

example, the Investments Committee of the Ministry of Foreign Affairs of the Republic of Kazakhstan should work in a close relationship with the Union Federations of the Republic of Kazakhstan and workers' guilds to guarantee that the work showcase is benevolent to remote speculators by keeping wage rate at the very least. Also, in spite of the fact that infrastructural improvement does not fundamentally anticipate FDI in agrarian sector of the economy, it has a positive relationship with FDI inflows. Subsequently, it is urgent for the legislature to frame gigantic interests in giving infrastructural offices (for instance, great transportation, vitality assets and media transmission) so as to construct the nation favorable and serious for remote financial specialists.

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# **“The Effect of China’s OFDI on Bilateral Trade in Central Asia Counties Under “Belt and Road” Initiative”**

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## **Abstract**

Trade and investment have always been important economic issues. Meanwhile, foreign direct investment and export trade are also key parts of the open policy. The expansion of foreign direct investment affects the development of bilateral trade, and the increase in trade also affects the development of foreign direct investment. With the introduction of the “Belt and Road”, central Asian countries along the route, have closer trade and investment relations with China. However, some problems between such trade and investment have not been completely resolved. For example, how much effect does China OFDI brings to bilateral trade amount in central Asia countries? Are the OFDI and bilateral trade reinforcing? Is there other effects except for trade that OFDI brings to central Asia countries? If so, what are they? The article addresses these issues and analyzes the relationship between China ’s direct foreign investment and bilateral trade in the context of the “Belt and Road” central Asian countries. Therefore, it is of great practical significance to study the relationship between China's direct investment and bilateral trade with Asian countries along the route. This paper examines the status quo of China’s foreign direct investment to Central Asia countries(Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan) under the Belt and Road initiative and assesses the relationship between export trade and foreign direct investment through the following ideas: First, it introduces the baseline situation of Central Asian countries and explains the current situation of China's direct investment and export trade with Central Asian countries. Secondly, it analyzes theoretically the motivation of China's foreign direct investment on export trade and their relationship. From the perspective of foreign direct investment and foreign trade, respectively, it analyzes the impact of OFDI on export trade, and impact of foreign trade on OFDI. Third, the empirical analysis of the relationship between the two. Based on the relevant panel data of Central Asian countries along the “Belt and Road” from 2006 to 2018, this paper uses China ’s foreign direct investment as the core variable to build an extended trade gravity model to study the impact of China ’s foreign direct investment on export trade. Then China's export trade is the core variable, and an extended investment gravity model is constructed to study the impact of export trade on China's foreign direct investment. At the same time, based on the perspectives of five countries in Central Asia, dynamic panel GMM estimation methods was used to assess the relationship between them. Finally, according to the results of

empirical analysis, corresponding suggestions are put forward from the perspectives of enterprise, industry and macro economics. Through the analysis of the above steps, the following conclusions can be drawn: (1) Whether it is the total sample regression or the sub-sample regression, China's foreign direct investment and export trade have positive effect on each other. In other words, there is a complementary relationship between China's direct investment in the "Belt and Road" Asian countries and export trade. (2) In the total sample regression, the positive effect of China's foreign direct investment on export trade is lower than the latter's positive effect on the former. In the sub-sample regression, the positive effect of China's direct investment in Central Asia on export trade is higher than the positive effect of the latter on the former.

Key words: foreign direct investment, foreign trade, Belt and Road Initiative, trade gravity model, GMM estimation

1.Introduction 2.State research questions 3.Methodology 4.Literature Overview

## **Introduction**

### 1.1 Background and overview

"The Belt and Road" (B & R) is the abbreviation of "Silk Road Economic Belt" and "21st Century Maritime Silk Road". In September and October 2013, Chinese President Xi Jinping proposed the construction of "new "Silk Road Economic Belt" and "21st Century Maritime Silk Road" cooperation initiative. Relying on the existing bilateral and multilateral mechanisms of China and relevant countries, and using existing and effective regional cooperation platforms, the Belt and Road Initiative aims to borrow the historical symbols of the ancient Silk Road, hold the banner of peaceful development, and actively Economic cooperation partnership to jointly build a community of interests, destiny, responsibility for political mutual trust, economic integration, and cultural tolerance. On March 28, 2015, China National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce jointly issued the "Vision and Action for Promoting the Joint Development of the Silk Road Economic Belt and the 21st Century Maritime Silk Road". After the opening of the "Belt and Road" economic zone, the number of contracted engineering projects exceeded 3,000. In 2015, Chinese enterprises made direct investments in 49 countries related to the "Belt and Road", and the investment volume increased by 18.2% year-on-year. In 2015, China undertook service outsourcing contracts of relevant countries in the "Belt and Road" with a value of US \$ 17.83 billion and an amount of US \$ 12.15 billion, a year-on-year increase of 42.6% and 23.45%, respectively.

At the end of June 2016, China-Europe trains had a total of 1881 trains, of which 502 were return trips, and the total import and export trade reached 17 billion US dollars.

### 1.2 The role of China's FDI in Central Asia countries

Central Asia is located in the core area of the Eurasian continent. Its geographical location is very important. Since ancient times, it has been a battleground for soldiers. At the same time, it is also the junction of various civilizations. The ancient Silk Road closely linked Central Asia and China and became an important part of the Silk Road. With the positive response of the Central Asian countries to the "Belt and Road" initiative, China urgently needs to conduct indepth research on issues such as economic and trade development, political system, and extreme forces in Central Asia.

### 1.3 The purpose of the study

One of the key element of the BRI is transportation infrastructure investment which facilitate multilateral trade and communication across BRI. Compared to other countries across BRI, central Asia countries have weak infrastructure construction, unstable political condition and relatively backward economic capacity, which made these countries less competent than other developing countries regarding the efficiency of attracting FDI. Therefor, to catch up with the Belt and Road development opportunities and become decent part of the silk road economic belt, central Asia countries have two important objectives: strengthen physical infrastructure condition, attract FDI and expand trade amount. Therefore, the purpose of the study is the examination of China's OFDI on central Asia countries and its relationship with foreign trade, and the discussion of the challenges waiting on the way to be solved..

### **State research questions**

In order to achieve the mentioned above purposes, this thesis works to find out answers for the following research questions: 1) What are the motivations of China's OFDI and foreign trade in central Asia countries? 2) What are the effect of China's FDI on foreign trade and vice versa? 3) What is the relationship between China's OFDI and export trade in central Asia countries? 4) What could be the innovations or challenges form to increase marketseeking and efficiency-seeking FDI?

### Methodology

The gravity model is based on the universal gravitation formula proposed by Newton. In the 1960s, two economists carried out development and innovation, and proposed a relatively complete gravity model. Moreover, this gravity model is increasingly used in the field of economics. In the theory of international trade, the initial gravity model was: the trade flow between the two countries is positively related to the economic size of the two countries, and negatively related to the distance between the two countries. Over time, scholars at home and abroad have innovated and developed this model, and have successively added influencing factors such as the total population of the two countries, bilateral policies, and free trade agreements to form a more complete gravity model. Initially, the gravity model was mainly used for the study of trade flows, and gradually expanded trade gravity models were formed. Now, this extended model of trade gravity is no longer confined to trade flows and other aspects, and is also widely used in trade effects and trade capabilities. This research method has epoch-making significance for studying international trade relations. At the same time, after continuous innovation, the gravity model has gradually begun to be used in the field of international investment, forming a more innovative investment gravity model. It is based on the trade gravity model that the bilateral investment volume is substituted for the bilateral trade volume. At the same time, the two countries' GDP, the distance between the two countries, and bilateral investment agreements have

been added to form an extended investment gravity model. At present, the investment gravity model has been gradually applied to the bilateral investment field, which has a far-reaching impact on the study of international investment relations. At present, these two extended gravitational models are of great significance for studying international trade and investment relations. At the same time, it occupies a pivotal position in the field of modern trade and investment. The empirical study of trade and investment relations by combining these two models of gravity is even more convincing. This article is based on these two extended gravitational models, and also adds other influencing factors of trade and investment to empirically analyze the trade and investment relations between China and the "Belt and Road" Central Asian countries.

## **Literature Overview**

One Belt One Road Initiative Once the Belt and Road Initiative was proposed, it attracted widespread attention from scholars at home and abroad. Countries along the route and many extraterritorial powers responded differently to this initiative based on their own national considerations. The smooth progress of the Belt and Road Initiative requires not only strengthening exchanges and cooperation with the countries along the route, but also the understanding and

recognition of the international community, so that the goals of openness, tolerance, and mutual benefit can be truly achieved. In recent years, some scholars have been cautiously watching or skeptical about the Belt and Road Initiative, but some scholars have stated that they should take a reasonable look at China's initiative and should understand and strengthen cooperation. Among them, Shannon Tiezzi (2014) believe that the Belt and Road Initiative is a new version of the "Marshall China" Plan, which will provide financial support to the countries along the route through the Asian Investment Bank and Silk Road Fund to change the infrastructure and economic outlook of the countries along the route. Michele Penna (2014) believes that it is incomplete to define the Belt and Road Initiative as an economic investment bank. The initiative contains a geopolitical status and will strengthen China's important influence in Asia. Kurt Tong (2015) holds a different point of view. He believes that the Belt and Road Initiative cannot be simply equated with the "Marshall Plan". The historical periods of the two are different and have essential differences. The ultimate goals they seek are also different.

China OFDI in Central Asia countries Hsiu-Ling Wu & Chien-Hsun Chen (2004) found through research that in recent years, China 's trade and investment in Central Asian countries has increased rapidly, and the potential for cooperation in the economic field is huge, but the SCO has not yet reached a long-term cooperation agreement. Different attitudes towards cooperation have led to economic cooperation between China and Central Asia at an early stage. Wei He & Marjorie A. Lyles (2008) used micro-case studies to analyze the history of China's foreign direct investment, and found that China's foreign direct investment has a polarized response, and took the United States as an example to study the politics, culture, marketing and Challenges in technology, etc., and related suggestions. Xiaoxi Zhang & Kevin Daly (2012) used panel data from 2003 to 2009 to quantitatively analyze the main factors of China's foreign direct investment, and found that China's foreign direct investment and the host country's trade relations, market size, degree of openness, economic growth rate and natural Factors such as resource endowment are positively correlated. Ivar Kolstad & Arne Wiig (2012) based on an analysis of the determinants of China's host country for foreign direct investment from 2003 to 2006, and found that China's foreign direct investment tends to be a OECD country with a large market size and a non-OECD country with abundant resources and poor institutions. Bala Ramasamy et el. (2012) Used Poisson regression model to evaluate Chinese companies' international investment interest decisions from 2006 to 2008, and found that Chinese enterprises of different natures have different determinants when making overseas investments. State-owned enterprises tend to prefer natural resources. Countries with rich and political risks, while private enterprises have more choices to pursue market size.

**“Profit determinants and driving motives of foreign banks in developing market economies. The case: European Bank for Reconstruction and Development (EBRD)”**

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**Abstract**

This paper pursues to reveal the driving motives and profit determinants of foreign banks in particular of EBRD. The research paper carefully investigates the EBRD data of recent audited financial reports from 2008 to 2018, provides with statistical results and technical detailed insights for any external/potential investor. Bases on both theoretical and statistical applications engage bank specific determinants, major macroeconomic variables affecting the balance sheet (B/S) & profit and loss (P/L) statements, and recent trendy Fintech (OLS method employed). Hypotheses of testing; whether EBRD in region of thirty-eight economies offers an attractive loan options for businesses, promotes green economies, contributes into well-governed structure, or in fact it only appears to be a buffer against risk to many undeveloped countries with weak corporate governance including high level of corruption as a result, being primary factors of profitability. These results are essential to shape clear understanding inside motives and business incentives. Findings signaled in opposite to traditional commercial banks performance. The research originality, there are no similar works on EBRD so far. However, inevitable results do not serve in promotional purposes of the bank by carrying entirely independent and unbiased opinion for any reader.

Keywords:

EBRD (European Bank for Reconstruction and Development)

Fintech

Profitability

Green Economy

## **1. Introduction**

In 2020 with progressive development of globalized financial world, banking sector of any country is presumably experiencing much complex profit structure. Banks must accept stricter regulations from both national side and attempt internationally to comply with accepted recommendations (BASEL III) to minimize the default risks by greater reserve requirements etc. on the other side. Alternative concern is constant strategic intrusions in provided colossal foreign loanable funds to the national economies in particular from such multiplayer banks as the European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), and Islamic Banking (IB). It is important to highlight that the EBRD is not a retail bank, meaning it does not deal with typical consumer financial products such as current accounts or mortgages. As a result, this paper tries to examine in better scope the profit determinant approaches for overall banks but focusing precisely on EBRD.

In the meantime, the single abovementioned dissimilarity cannot pretend to bring exceptionally different profit determinants, so the research paper must consider investigated results of conventional and Islamic banks (Fayzulayev, Bektas, & Ismailov 2018) or any other types from earlier authors once applicable. Furthermore, the financial statements of banks have similar representations to produce resourceful financial analyses and statistically reflective results. Previously, empirical studies evidenced that commercial banks can be explained by internal (Rumelt, 1991; Mahoney and Pandian, 1992; McGahan and Porter, 1997) and external factors (Scherer, 1980; Bowman and Helfat, 2001; McGahan and Porter, 2002; Hawawini et al., 2003) however; there are not so far enough evidently researched papers on multinational player as EBRD to observe one. These both internal and external factors are further investigated in more detail in literature review part. Nevertheless, most of the findings by early authors greatly mention and rely on effects of bank specific, industry specific and macroeconomic variables related commercial banks except financial technology impact. This variable indication is necessary in modern world; in fact, the preference among clients directly switched to simplicity and advancement of technological services the bank offering.

For instance, a few leading banks in Kazakhstan dominantly gained their reputable market shares for the initiatives in transfer payments with no fee among its own clients and the rest of generally innovative mobile application technologies used for majority of daily and offline clients' needs. Personal, not corporate clients, increased in greater numbers contributing substantially to the banks' profitability. However, the primary purpose of this research remains to be a profitability of the multiplayer EBRD that in contrast as it was abovementioned; does not contribute by ordinary commercial bank business activities to its revenue stream. Still, in order to investigate the determinants of profitability, it will be common to have a look at previous bank specific variables lists to summarize with structured solid results. In spite of elimination of current accounts, the EBRD is greatly compensated with cash inflows from dozens private business individuals instead. Given the fact that EBRD consists of 67 members plus European Union (EU) and European Investment Bank (EIB). Credit risk is diversified through member states 38 economies covering three continents since each country directly linked as a shareholder of the bank. It definitely helps the country member to be receiver of financial capital to the country from one side by guarantying country risk and to obtain benefits of the dividends transferred from net income (NI) on the other side. This cannot be served as classical example for the rest of the commercial banks whereas 100% of voting shares had been often distributed among its own citizens locally. The research paper was structured as follows: Part 1 Introduction, Part 2 Literature review on existing academic findings on the determinants of financial performance in banking. Part 3 underlines the data and methodology. Part 4 explains empirical assessments and results for EBRD participating member countries, and Part 5 delivers the conclusion.

## **2. Literature review**

Banking industry is examined for numerous aspects of financial performance determinants, motives, and global issues of banking in dozens of impressive academic papers covering cross-country level all regions of the world. For instance authors are; Alimshan Faizulayev, Eralp Bektasa and Abdul Ghafar Ismail (2018), Nader Alber (2019), Alimshan Faizulayev and Isah Wada(2017) Djalilov and Piesse (2016), Shaista Wasiuzzaman (2017), Muda et al. (2013), Hassan and Bashir (2005), Pasiouras and Kosmidou (2007), Demirguc-Kunt and Huizinga (2000), Gul et al. (2011), Faizulayev and Bektas (2018), Hirsch and Gschwandtner (2013), Athanasoglou et al. (2008) and Goddard and Wilson (1996). The major aspect of any research is to alternatively investigate and synthesize the work of earlier authors with the similar research objectives. Considerably, many studies conducted are extensively carrying the purpose of exploring initially the areas of strengths and weaknesses in today's competitive banking

environment in order to figure out eventually how to maximize shareholders wealth, in fact the same as in any other industries. Another significant point was selecting and identifying these profitability determinants relative to each bank specifics. To construct a concrete model/formula towards achievement in clarity and consistency, hence, the theoretical part must contain the bank specific variables; industry related macroeconomic variables, and technology. Unlike the other approaches, this approach takes into account technological one as well. Undeveloped with financial markets countries are more likely to engage in banks loan activity because this is the last resort to be financed. Even if the cost of funding is much higher than in average, the lack of available financial injections through existing vehicles create an opportunity to make higher net interest margins unless the regulator induces the limitations to prevent that from happening. The empirical studies suggest that there is a relationship between size of the bank and profitability Almazari, 2014; Goddard et al., 2004; Demirguc-Kunt & Huizinga, 2000. Generally, the similar findings relative firms' size showed positive relationship effecting profitability Gschwandtner (2005), Nunes et al. (2009), Asimakopoulos et al. (2009), and Stierwald (2010). There is no doubt that in clients' eyes superior the bank's asset size directly represents a solid reputation and resource abundance with less chance to default. However, bigger the size higher the chances of inefficiency can be found in actual cases that clearly reverses back the myth of direct positive relationship whilst capable to explain firms' profitability in the reference to works of Jensen and Murphy (1990), Pi and Timme (1993), Dhawan (2001), and Goddard et al.(2005). According to Dietrich & Wanzenried (2010), the average return on assets (ROA) is the reliable measure for bank profitability, which expresses a function of both internal and external determinants. Certainly, the internal determinants must not be limited to ROA or ROE so we include other bankspecific variables such as liquidity, size, efficiency management, whereas the external variables reflect the systematic risk from unprevented external risks possible influencing the profitability of financial institution at macroeconomic level. These are gross domestic product (GDP) growth, inflation, money supply, stock market capitalization, central bank interest rate, taxation, domestic credit, market structure, and financial freedom. Many authors evidenced on their works a remarkable and positive link between GDP growth, inflation and bank profitability Athanasoglou et al., 2008; Alexiou & Sofoklis, 2009; Bourke,1989; Faizulayev 2018; Molyneux & Thornton, 1992; Albertazzi & Gambacorta, 2009. Liquidity plays a crucial role in banking especially during the global crisis times therefore, it is reasonable to mention the major challenges from perspectives of both bank and clients. As for the bank, the main task is to evaluate clients' creditworthiness whereas sophisticated clients and investors' financial

decisions usually start with a review of deposits, credit ratings and certainly measuring returns with given level of risk, in case of investment to fixed securities. Insufficient deposits ratio is frequently an observable illustration of problematic liquidity and solvency. Though diversification and increasing the classification list of liquid assets in balance sheet, banks reduce the risk of exposure

Faizulayev (2018). According to Goddard et al (2004) empirical research studies on determinants of profitability for banks in European countries, there is a negative relationship between liquidity and profitability. In addition, Chiorazzo et al. (2008) as for Italian banks supported with findings on inverse relationship between liquidity and profitability. As it was indirectly stated above, investing in less liquid are compensated with higher returns as a result, an illiquidity is measured in terms of certain level of risk. On contrary, Bourke (1989) discovered a substantial and positive relationship between the level of liquidity and profitability. Additionally, banking sector can be described with another essential risk concept, which is a credit risk. According to Miller and Noulas (1997) and Athanasoglou, Delis, and Staikouras (2006), there is an inverse relationship between credit risk and bank profitability. The risky loans imply unsafe deals and increase of uncollectable amounts eventually taking to diminish the expected bank profits. A credit scoring is applied to individuals and bond's grades are given to the fixed income credit's ranking. However, the higher a ranking of credit security indicates the lower risk of exposure decreases the profit for investor and reduces the interest cost for the bank. Notably in early researches, it is partially the case where the managerial efficiency is a key factor of the banking sector that directly indicates the profitability of banks. As it was supported by Dietrich and Wanzenried (2014) there is a positive significant relationship between higher management quality and bank profits.

### **3. Data and Methodology**

The panel data composed is used to perform the empirical analysis on profitability determinants for EBRD. Cross-country bank-level and macroeconomic data have been collected from the banks' official websites, World Bank databases of the participating EBRD shareholder member countries over the period 2008–2018. These are the most reliable secondary data sources to reach the researcher's objectives. The study period covers from a crisis start point up to its high growth for the period of last 10 years. EBRD's consolidated annual financial statements was carefully retrieved and statistically examined. For data testing whether data is stationary or not, the panel root test have been employed to the variables.

According to methodologies developed by Levin, Lin and Chu (LLC) the data reject the null hypothesis, in other words, the unit root does not exist in our whole model or the data is stationary. Bearing in mind when the data is not stationary then to find out whether there is or not long run relationship between the variables as a result, Level Equation and ECM by using ARDL method, Bound Test and Ganger Causality test would be applied. Furthermore, the presence of multicollinearity in our regression model is tested. According to correlation between independent variables are very low in model, R square are very low which proves the absence of multicollinearity, correlation table is represented in Table 1. For validity of absence multicollinearity, we used VIF estimation which is provided in Table 2. Moreover, model has been corrected for heteroskedasticity. In this comparative study ordinary regression equation is employed to measure and evaluate the difference in financial performance of banks. The Ordinary Least Squares (OLS) regression technique performed with the assistance of Stata software for our equation. In accordance with Hausman test, which is performed in panel data regression analysis as well, the “Random Effects” model has been used because our sample data does not represent whole population. Furthermore, dependent variable used in this linear least squares NIM. Other variables are considered as independent ones and demonstrated below in the model.

#### Model Specification

$$NIM = \alpha + \beta_1GDP + \beta_2INFL + \beta_3FSIZ + \beta_4FLEV + \beta_5MEFC + \beta_6FTEC + \dots + \epsilon$$

Whereas;  $\alpha$  = Constant NIM = Net Interest Margin (Profitability) GDP = Gross Domestic Product (GDP) IFL=Inflation FSIZ = Firm Size FLEV = Financial Leverage MEFC= Management/managerial efficiency FTECH= Financial technology  $\epsilon$  = Error Term

Sources: 1) Orbis Bank Focus and \*World Bank Databases.2) EBRD countries Financial Report 2018

#### Variable Measure Notation Impact

Dependent variables Return on Average Assets Net Income to average assets ROA Net Interest Margin Interest income–interest expense) to total assets NIM Net Non-Interest Margin NNIM (Non-int. Inc.–Non-int. exp.) to total assets NNIM Independent Variables Bank specific One Lag of Profitability Profitability ratio is lagged by one to measure ROA(–1) NIM(–1) NNIM(–1) + persistence of profitability

Capital Adequacy Total equity to total assets TETA + Asset Quality loan loss provisions to total loans PLLTL – Efficiency Management Cost to Income ratio CI – Liquidity Liquid assets to total deposits LIQ +/- Bank Size Logarithm of total assets of banks LTA +/- Loan Growth Loan growth measure LG + Market structure in banking Boone Indicator Elasticity of total revenues to marginal cost, see for Boone – more details Boone (2008). Macroeconomic variables Inflation\* Measured by consumer price index Infl – GDP Growth\* Gross domestic product growth GDPG + Political Stability\* Measures political stability and no violence in the country ranging from weak to strong governance, from –2.5 to 2.5 respectively PolStab +/-

Dummy Variable Xare coded as 1, but XXs as 0. DUM +/- Time Dummy Crisis for every year dummy is created 2009/2010/2011 – Advanced countries Croatia, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Rep. & Slovenia Early/intermediate countries Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Cyprus, FYR Macedonia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Mongolia, Montenegro, Romania, Serbia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan Other member countries of the Organisation for Economic Co-operation and Development which [www.oecd.org/about/membersandpartners/](http://www.oecd.org/about/membersandpartners/) are not classed as advanced or early/intermediate

#### 4. Empirical Results

Hypothesis testing and regression analysis.

This is a multiple regression line, with NIM as the dependent variable and with variables, such as ROA, ROE, TETA, NNIM, CTI, NPL, PolStab, GDPg and Zscore. There were 16 observations and the period lasted from 1996 to 2018.

Our regression model:

$$\text{NIM prediction} = 0.0130349 + (-0.0002998) * \text{Zscore} + (-0.0108018) * \text{GDPg} + (-0.117601) * \text{PolStab} + (0.01496065) * \text{NPL} + 0.0060289 * \text{CTI} + 0.8832526 * \text{NNIM} + 0.0301794 * \text{TETA} + 0.01917582 * \text{ROE} + (1.435871) * \text{ROA}$$

Variables that are affected negatively are: ROA, NPL, PolStab, GDPg and Zscore.

TETA affects the NIM positively and the value is consistent with the findings of Faizulayev (2018).

There is a strong inverse relationship between ROA and NIM.

We fail to reject the null hypothesis for ROE, as p-value is higher than 0.05.

## 5. Conclusion

It can be concluded that EBRD will continue to expand internationally and its financial position is quite strong. It has continuously increased its investments and is expanding to new countries.

EBRD proved itself as an effective investor and managed to substantially improve its financial results.

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# **“The Impact of Natural Disasters on the Financial Markets”**

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## **Abstract**

In this study, we wanted to find out whether natural disasters affect financial markets and how this impact manifests itself in the short and long term. We looked at natural disasters in various countries around the world and their impact on stock returns, gold, and company volatility. As a result of the study, we found that the changes were more significant immediately after this event than over time and in the long term.

Also, empirical data indicate that changes in the financial market undergo significant changes in the short term after the event.

*Keywords: financial markets, natural disasters, impact, earthquakes, floods, tornadoes, hurricanes, United States, Japan, Stock returns, gold, volatility.*

Natural disasters such as earthquakes, floods, tornadoes and hurricanes can cause huge damage to the country's residents, its infrastructure and the morale of the people. Loss of life, destruction of factories and wholesale bases, and the accompanying state of uncertainty are not the best companions of the financial markets.

Damage to infrastructure is a key problem, because infrastructure is the basis of any economy and its violation can significantly limit the production capacity of the region.

Moreover, funds from government and private funds are used to restore the territory, which could have been used for cost-effective projects, rather than for “patching holes” in the infrastructure. Add to this the likely reduction in consumer spending amid economic uncertainty and falling consumer confidence. In such circumstances, any strengths of the economy can turn into its shortcomings, especially in comparison with other countries that only benefit by filling the affected regions with the necessary goods and services.

It would seem that disasters should have a negative impact on financial markets in general, but the answer is not so clear.

## **Introduction and objective**

A man-made disaster in the United States occurred on April 17, 2013. That day there was an explosion at a chemical plant in the quiet provincial town of West. The plant was affected as well as the city to a large extent.

As a result, investors began to sharply dump the shares of the company Adair Grain Inc. that owned the plant. Shares of other chemical companies were also received.

This caused the dollar to rise, as a fall in stock market shares always pushes the dollar up. The Eurodollar currency pair fell by 165 points that day.

The tsunami occurred in Japan in March 2011. It was the strongest tsunami in modern history, and it caused incredible destruction in Japan. Japan saved their banking system as best they could and sold all the gold they had in stock. But this only helped in part, as the tsunami caused the destruction of the Fukushima nuclear power plant and investor confidence ran out.

When the Central Bank sold gold, the yen strengthened strongly, but after the accident at the Fukushima power plant, the yen literally collapsed.

When oil was spilled in the Gulf of Mexico in April 2010, it was one of the most powerful environmental disasters. BP's oil platform sank on April 22, 2010, causing an unprecedented oil spill across the Gulf of Mexico.

All this caused the pound to fall, as BP was British at the time and paid huge fines. The fall of the pound dollar continued for the rest of April and the whole May.

### **State-of the-art literature review**

Natural disasters can cause a wide variety of consequences. Some researchers say that natural disasters have a negative impact on economic growth (Hochrainer, 2009; Noy 2009; Raddatz, 2009; Strobl, 2008).

One part of the research suggests the consequences may be a decrease in GDP growth due to the loss of property, and an increase in demand for certain goods causes inflation and exchange rate fluctuations (Abe et al. (2014); Melecky and Raddatz (2015); Parker (2016)).

Another part of the researches describes such consequences as increased poverty, reduced production and increased vulnerability of stock markets ((Worthington and Valadkhani (2004); (Ferreira and Karali 2015)).

While some studies prove that earthquakes, floods and tsunami can have neutral effect as well as positive (Baker & Bloom (2013); Leiter, Oberhofer, & Raschky (2009); Skidmore & Toya (2002)).

## **Research methodology and data collection tool**

The purpose of this article is to study the impact of natural disasters on financial markets.

We use Variance Bounds Tests and Stock Price Valuation Models (Fakhry & Richter (2018)) and asymmetrical C-GARCH model (Engle & Lee (1999)) to analyze the effect of long and short runs and to find answers to the questions.

The data collection based on the consideration of various sources of information: graphs, tables, official sites on Major Financial Markets Indices (market, equity, gold, foreign exchange, sovereign debt) for different countries for the last 20 years.

## **State research questions**

Based on the facts stated above, during the research we decided to answer three key questions:

1. Will be natural disasters cause a correction that would have a significant impact on financial markets?
2. What will be the consequences of natural disasters for financial markets: negative or positive?
3. To what extent do these natural disasters affect financial markets in the first few days and in the longer term?

## **Data analysis**

We collected data for writing a dissertation by searching for thematic sources and literature to understand whether there is a relationship between natural disasters and their impact on the financial market, and then analyze the impact. The necessary sources were found on various internet statistics sites and in the library. We also chatted with people and recorded questions to find out more regarding the issue.

## **Summary, conclusion and recommendations**

To evaluate the data of short-term and long-term consequences after natural disasters and their impact on the financial market, we used the GARCH test with reference to the variance in the program R. According to the results, we can say that there was an impact on the market. The changes were more significant immediately after the event than over time and in the longer term.

Also empirical data indicate changes in the financial market undergo significant changes in the short term after the event only.

It should be noted that information leads to making certain decisions has an impact on financial markets (Cohen (2009)). In most cases natural disasters occurs suddenly and lead primarily to a mass of unrecognized, limited or contradictory news. The reaction of market participants is instantaneous and may be inadequate to what is happening. If the reaction is too sharp, it can have longer-term consequences for the market correction. It is necessary to exclude contradictory or inaccurate information and base on official statistics and data to avoid inefficient pricing in the market.

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# **“Performance Appraisal Practices in Kazakhstan: A Study on Local Banks”**

Lyailim Zhanaly, MBA, ID#20181595 and Monowar Mahmood, PhD,

## **1. Introduction**

The effectiveness of any organization depends on how competent its staff is. In order to establish the effectiveness of each employee performing their duties, to identify the strengths and weaknesses of each member of the team, as well as to fulfill the requirements for confirming the qualifications of employees, it is necessary to conduct a personnel assessment. For this purpose, an organization should develop a personnel assessment system that allows not only to evaluate its skills, abilities, experience, but also to draw up a program to improve work with personnel, improve their qualifications, professional selection and create a personnel reserve. The ability of a banking organization to mobilize and effectively use its personnel assets is becoming a more significant factor.

## **2. Bank industry in Kazakhstan**

A decade after the crisis, the banking sector of Kazakhstan is approaching qualitative changes. Numerous challenges: tightening regulation by the National Bank, new rules of international financial reporting standards, increasing competition in the market, and much more that banks have faced, have determined the need to change approaches to the banking business. Recent years have been marked by important events in the banking market of the Republic of Kazakhstan, so this has affected the quantitative composition of the banking system. Four banks in the country decreased, three of them decided on forced liquidation, combined two systemically important banks. But despite everything that happens, the second-tier banks were able to increase gross profit compared to 2017. Over the past 4 years, there has been a consolidation of the banking sector, if as of 01-01-2016 the banking sector consisted of 35 second-tier banks, then as of 01-01-2019 there are 28, i.e. quantitative decrease of 20%. In 2018 alone, the banking sector contracted by 13% (AFK – Association of financiers of Kazakhstan, 2019). (Figure 1)

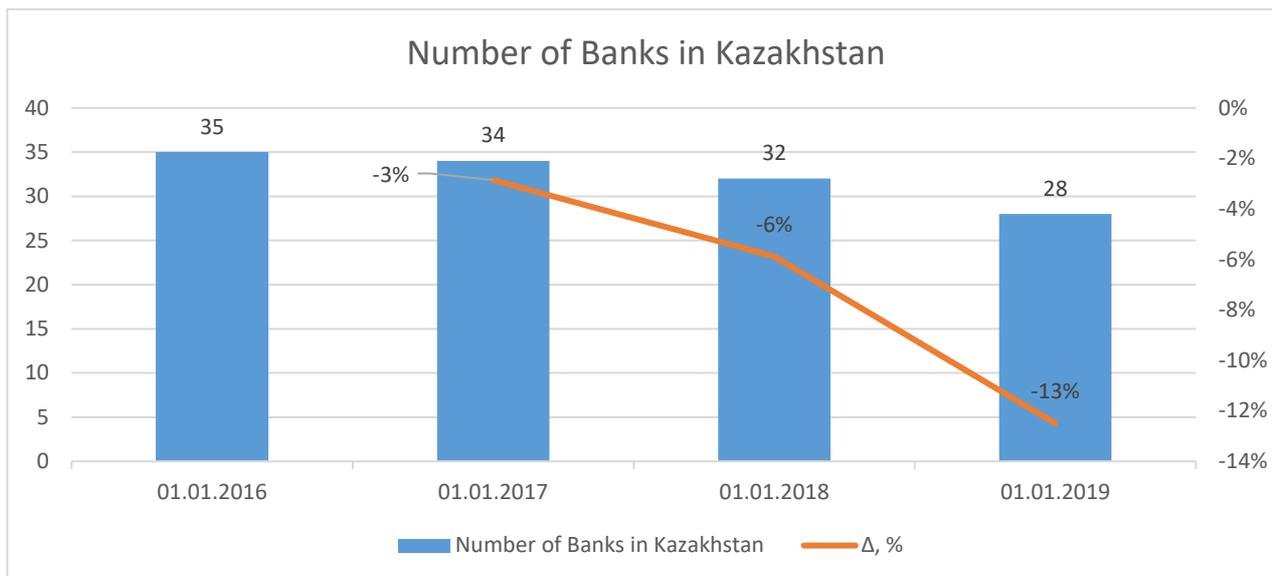


Figure 1: Number of Banks in Kazakhstan (<https://afk.kz/>)

Today, banks have diversified their activities and are introducing new products and services that include opportunities in the areas of credit cards, consumer finance, asset management, life insurance and general insurance, investment banking, mutual funds, regulation of pension funds, brokerage services, custodian services, private equity capital, etc. A country's economy can only grow if there is a healthy and efficient banking system. Thus, the banking system should be not only problem-free, but also capable of solving new problems related to technology and any other external or internal factor. People are the organization's most valuable asset, whether private or public, human resources endowed with unusual qualities such as creativity, the ability to solve problems, and they can be motivated as a team. It is only necessary to manage them, evaluate them and motivate. This can only be done by evaluating their performance from time to time (National Bank of Kazakhstan, 2015-2017).

### 3. Performance Appraisal in Banking Industry

Performance appraisal is a regular analysis of the performance of an employee of the company. Often known as "annual evaluation," "study or performance assessment" or "employee assessment," the performance assessment tests the abilities, successes and lack of development of an employee. Companies use performance evaluations to provide workers with an overall image of their jobs, and to justify higher pay and promotions, as well as dismissal decisions. This procedure is carried out in companies at any time, but, as a rule, they are carried out annually, once every six months or quarterly. Evaluation of effectiveness is an annual method of associate degree, which includes an assessment of the effectiveness and productivity of an employee in comparison with a predetermined set of goals for this year. It also helps to evaluate the skills,

strengths and weaknesses of the employee. The results of this method of evaluating the effectiveness determine the increase and increase in wages of employees. Performance assessment objectives vary from company to company, and depending on the size of the organization, the assessment methodology varies. The importance of evaluating effectiveness has no limits. Effective analysis related to performance management will have a big impact on the organization's culture, employee morale and employee engagement — all of which improve overall leadership and support the preservation of key talents at regular intervals (HR director, 2011-2020).

The banking industry management is currently experiencing a huge need for non-financial information, relating primarily to staff assessment. But many banking organizations are still building performance evaluation systems, based solely on financial indicators, and at the same time suffers significant losses. Most systems for evaluating the effectiveness of financial activities are based on the annual budget, operational plans, formalized financial statements. Non-financial indicators, such as the quality of banking services, the ability of a bank to maintain and increase customer satisfaction, the effectiveness of employee management, the main role of management in the development of an organization, the qualifications and satisfaction of staff, are of great importance at the moment and are crucial to the capitalization and competition of a banking organization. Staff management of the organization allows you to measure what financial management and accounting do not measure. Therefore, one of urgent issues for the bank is building an effective personnel assessment system that will provide it with energetic, erudite, correct, contact, dedicated employees. However, the absence in the overwhelming majority of banking organizations of a formalized personnel assessment mechanism is one of the main reasons for the insufficient efficiency of employee's work. As a rule, this leads to the following negative consequences:

- increased staff turnover;
- the availability of vacant jobs in the bank's divisions, unsubstituted for a certain period;
- the occurrence of labour conflicts that went beyond the framework of the respective structural units;
- the appearance of claims from customers regarding banking services;
- decrease in the efficiency of bank employees;
- decrease in bank competition.

To increase the effectiveness of the personnel assessment system, first of all, it is necessary to introduce into the staff management system a normatively established list of criteria that objectively characterize the work of employees during the calculation period. For an objective assessment of the quality of the employee's

work, for the further movement of employees to the right position, depending on their skills, it is necessary to conduct annual performance appraisal (Omarova, A.T. and M.F. Grelo, 2014).

#### **4. The purpose of the study**

The aim of the study is to analyze and understand why it is important to implement performance appraisal in commercial banks in Kazakhstan. How to improve the performance of employees and increase their future potential. Since in foreign companies it is required in annual review to provide valuable feedback to employee about present performance and deciding increase salary according to it. As everybody knows that in Kazakhstan clannism is very common, and in local banks it influences when choosing candidate to new position or in increasing salary to employee. With performance appraisal employee can prove that he/she more suitable for required position and deserve a salary increase. In most local banks practiced to raise salary, promote to a higher position once every 5 years. So, the main purpose of the study is to prove that implementation of performance appraisal in local banks in Kazakhstan will help to evaluate all employees fairly.

#### **5. The significance of the study**

The results of this study will benefit the society, organizations as a whole. Because with the right implementation of performance appraisal in local banks, it is possible to decrease clannism in society, decrease corruption if employee evaluated on regular base and increase profit of the organization because they will be motivated to work harder to achieve the target. Also, at the same time implementation of appraisal performance will help to organization in discipline within company, to avoid discrimination among employee, to operate efficiently in achieving their goals, and know existing staff strengthens to promote fairly. And it will help to create healthy environment between managers and employees in organization.

#### **6. Objectives of the study**

Research Objectives are:

- What is performance appraisal, traditional and modern methods and advantages and disadvantages to organizations.
- Identify, analyze the main issues of implementation of appraisal performance in local banks and know the methods for evaluating the effectiveness adopted by local and foreign banks.
- Determine the frequency with which employee productivity is measured.
- Understand the key milestones at which performance is measured and evaluated.

- Understand the relationship between performance and salary, awards, remuneration, promotion, training and development.

## 7. Limitations of the Study

- Limitations for this study without deep background knowledge;
- There are not so many organizations which are already implemented performance appraisal;
- It takes a long time to compile, evaluate and interpret all data;
- It is impossible to rule out or monitor all the variables because of the complexity of human experience;
- It does not take into consideration the unique capacity of people to interpret, construct and act upon their experiences;
- It contributes to the conclusion that every truth is valid and the same for all;
- The purpose of qualitative analysis is a completed and detailed description.

**Key words:** Performance appraisal, bank industry, Kazakhstan.

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# “Clannism and Talent Management in Kazakhstan”

Madina Abdir, MBA, ID#20171485 and Monowar Mahmood, PhD, Professor

## 1. Introduction

Talent management is a set of personnel management tools that enable the organization to attract, effectively use and retain personnel who are able to make a significant contribution to the development of the company. The term “talent management” is first used in a 1997 often cited in the article by McKinsey and Company, which is mainly devoted to the formation of the “talent war” (Abeuva and Muratbekova-Touron, 2019). Later, in 2000, pundits popularized this definition. At the end of the last century there was a need to attract, develop and retain corporate talents, in this regard, such a direction in management as talent management took shape. The goal of talent management is to ensure the influx of talents, since they are the main resource of the corporation. When a firm is increasingly large gives importance to employees, then the value of such a phenomenon as talent increases. It follows that now one of the main tasks in management is the identification of employees who are especially useful for the company, gifted and retiring (Baqtayan, 2014). The availability of such employees and their skillful management is a huge additional competitive advantage for the company, and these employees can become a leading factor in maintaining the integrity of the human potential of the company and the quality of the goods (Baqtayan, 2014).

The goal of talent management is to create a comfortable environment for the development and growth of an employee who is able to effectively apply knowledge and skills. Caring for staff comfort has long ceased to be just a beautiful phrase in the job descriptions of the company and migrated to one of the points of corporate culture. This is proved by the conditions in which employees of the largest companies in the world work. For example: Google has created at its headquarters for staff conditions under which he can live in the office for weeks. There are: kindergartens, restaurants, places to relax, places to work and hobbies. All this is not a whim of the company employees, these are necessary conditions for them to work at full strength and not be distracted by minor household issues. From the side of management, talent is a combination of skills, motivation and the desire to achieve new heights in a separate specialization (Abeuva and Muratbekova-Touron, 2019). Typically, talent employees are about 5% of the entire team in the companies. The productivity of such workers is on average 21% higher (Abeuva and Muratbekova-Touron, 2019). If talented employees are at the head of a company or department unit, then the profit grows twice as fast (Abeuva and Muratbekova-Touron, 2019). Interestingly, the impact of talent on company profits varies by industry. For example, it is higher in IT, sales, consulting, marketing and lower in manufacturing. Many companies are looking for talent to recruit.

## **2. Talent Management in Kazakhstan**

Kazakhstan is attractive for foreign investors, because the country is developing effective culture and transparency in business (Khoreva and Kostanek, 2019). However, the foreign investors and local companies criticize the regulations of Kazakhstan, because it resembles the Soviet Union (Khoreva and Kostanek, 2019). Thus, the main problems are over-reliance on the oil sector, corruption, political power and other (Khoreva and Kostanek, 2019). Ernst & Young has recently published an international study on the oil and gas sector, where one of the main problems was the lack of professional staff (Khoreva and Kostanek, 2019). That is, there is a shortage of managerial personnel and narrow specialists in all markets. Although, of course, for CIS countries this issue is especially acute. There are several reasons such as rapid growth, and modernization of economies, and the crisis in the birth rate of the early 90s, and the outflow of personnel abroad (Khorev and Kostanek, 2019). Often, the staff that becomes the most qualified leaves the space of the Commonwealth. Here, young economies that cannot immediately offer a comfortable life in the country, and people, for quite objective reasons, lack confidence in the future. In our markets, the vast majority of people have been working in the company for no more than 3 years (Khoreva and Kostanek, 2019). If you look at the segment of Western companies, then this period is 6-7 years, because people have confidence: "My future will be held in this company." (Khoreva and Kostanek, 2019). That is why this topic is relevant to the current situation in Kazakhstan, not only in Kazakhstan but in everywhere where businesses operate in a close knitted society.

## **3. Informal Network or Clannism as a Tool of TM**

Back in 1997, McKinsey conducted a large-scale study of how employee attitudes affect the success of a company (Basford, Schaninger, 2016). His results clearly demonstrated that power passed from company to person (Basford, Schaninger, 2016). This means that the phrase "business is people" is not as new as it seems. And this is not just a pathos definition, but also a direct indication to business owners and HR managers that the benefit of the entire organization depends on the number of talented employees (Basford, Schaninger, 2016).

The process of finding talent (talent acquisition) is somewhat similar to hunting - the HR manager "tracks the object" in all possible ways, like a prey hunter. According to a study by the Society of Human Resource Managers, more than 70% of people somehow resort to lies in their resumes (Nova, 2017). Forbes magazine even compiled a list of popular types of lies from the resume. For example: overestimated figures in achievements, wages, fraud with dates, education and advanced degrees, etc. Another problem with talent

search is that the resume provides too little information to differentiate candidates by job title or ability (Attupuram, Sequeira, Gopalakrishnan, 2015). Many job seekers have long learned to enter keywords in the resume that are suitable for a particular vacancy (Attupuram, Sequeira, Gopalakrishnan, 2015).

Thereby, internal network can be called as one of the tools of the talent management, because it can make work of HR easier through several reasons. Firstly, the company do not need searching people and posting information about availability of the vacation. While the organization will be popular within its employees' internal networks to the other people. That means there will be always a plenty choice of talented people. Secondly, from the other side, due to employee's personal connection, the talented employees who search a work can have information from "word of mouth". That is why it is beneficial from the both sides as to HR and to candidate. Thirdly, when some of the employee suggest a candidate, it means he or she is guarantor for this person. Thereby, mostly the employees who put forward a candidate of his internal network, he or she put forward reputation as well. That is why, it is possible to find a talent employee to the organization through internal network. Thirdly, due to employee's personal connection, the talented employees who search a work can have information from "word of mouth".

#### **4. The Research Objectives and Research Questions**

In almost all countries, someone who has achieved some sort of respect and growth, then he or she will drag one of his relatives through life, and everyone knows about it. Perhaps this is in the nature of human beings. It is impossible do not think and help relatives and close friends. For example, it is real developed in medicine, because since the doctor's profession has always been transmitted from parent to children and from teachers to students. Thus, the invaluable experience of the older generation was transmitted. Everything is clear and very good. However, today this clannism has not only in medicine or in teaching system, it has almost every sphere of the profession. Thus, people get used to that it is something bad and impersonal. While, it is human nature, thereby the society should be adopted to live with and find the ways how to get benefit from it. The research objective is that investigation clannism as a way of engage talent management in Kazakhstan. The research question is how clannism can contribute to acquisition of talent management?

**Key words:** Talent Management, Informal Network, Clannism, Kazakhstan.

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# **“Nomads meet Aussies: Business model of modern sheep breeding in Kazakhstan”**

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## **Abstract**

Sheep and goats are ruminant artiodactyl animals from the ovine family, domesticated about 10 thousand years ago. For many centuries, sheep farmers have worked hard to find ways to increase the quantity and quality of their meat and wool. The centers of origin are the Mediterranean Sea, Central Asia, Kazakhstan, South Africa. Today, sheep breeding is one of the main branches of animal husbandry. However, as we know, from the history of the breed-formation process in the sheep husbandry of Kazakhstan, as well as throughout the entire community of independent states, much attention was paid to the creation and improvement of fine-wool and semi-fine-wool breeds of sheep. The development of sheep husbandry in the country is favored by the availability of vast natural pastures, which accounts for more than 80 percent of all agricultural land. The industry has a number of systemic problems, such as a shortage of personnel; the country's young people are leaving for cities in search of high-paying jobs. Next problem is that, many pastures are leased and the tenant does not use and does not give permission for others to use. The government resolves such issues by taking such pastures back, but problems still remain. Thirdly, the industry is hindered by the underdeveloped infrastructure of sheep breeding, old technology. To address these issues, a number of measures must be taken. It is necessary to carry out technological reorientation of sheep husbandry. Introduce and implement modern world technologies adapted to the conditions of Kazakhstan. An example is the experience of Australia.

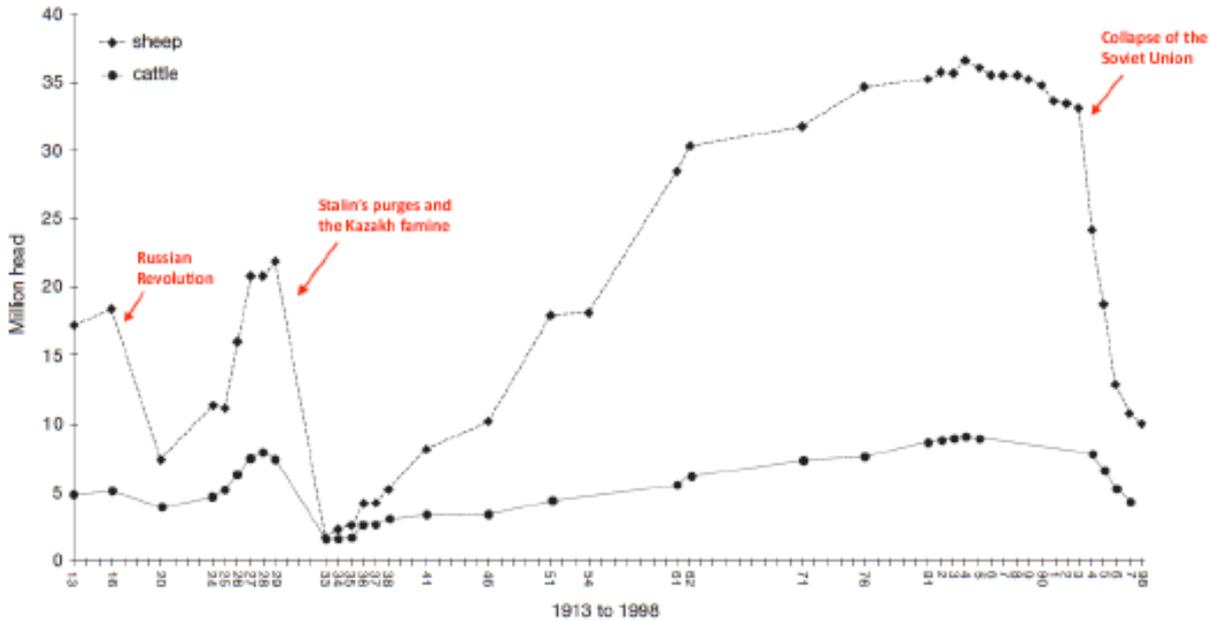
***Key words:** Sheep farming; grazing; pasture improvements; agriculture; meat export; modern technologies;*

## **Introduction**

While China is the largest producer and consumer of sheep meat in the world, Australia is the largest exporter with 38% of market share, followed by New Zealand with 33%.

The outlook for global sheep meat consumption is very positive, driven by growth in population and household wealth in emerging economies, especially in China and the Middle East. This increased demand is leveraged by supply constraints in the established sheep producing markets of Australia and New Zealand. Australia in particular has a contracting flock, now at its smallest size in over a century at about 67million head, of which only about a half will be breeding ewes.

Kazakhstan was a significant player in the global sheep industry until the demise of the Soviet Union in the early 1990s, when the industry effectively collapsed and Kazakhstan's national flock fell from a peak of about 35 million head to less than 10 million. The rate of decline peaked in about 2000 and has steadily rebuilt since, albeit at a very slow pace.



With very few exceptions, the local production system is based on a single shepherd tending a flock of up to 600 sheep. Corralled at night, sheep are grazed during the day. While this can be scaled, such a system disallows efficient grazing management, doesn't take advantage of the benefits of basic infrastructure, nor advanced genetics and animal health protocols. Supply chains are fragmented and there is little or no vertical integration, as is often found in more mature economies. Long-term investment in genetics, nutrition and animal husbandry would lift quality and capacity considerably and Kazakhstan is ideally positioned between the global markets of China to the east, Russia to the north and the Middle East to the South West. Kazakhstan also has the foundations of a latent, but once thriving, wool industry and is adjacent to the world's largest importer of wool and woolen products.

### Materials and Methods

The purpose of any business is to create and retain value. A company creates value if the benefits that consumers, suppliers, workers, investors, other stakeholders receive from its activities exceed the value of the resources used in such activities. The company holds value if it manages to make a profit - extract a positive financial result from the created value - exceeding revenue over costs. A business model describes how a company creates and retains value, in other words, how it produces and sells a product while making a profit.

The same product or service can be produced and offered to the consumer using different business models. In the same conditions and with the same technology, one model of business may be effective, in others - completely different models.

In this work, will be analyzed and described the business model of sheep breeding in Kazakhstan, as in the past, in the current and future trends after implementation of modern Australian methods adapted to the conditions of Kazakhstan. But first of all, it is necessary to determine the business model of the current sheep-breeding enterprises in Kazakhstan.

One of the latest works on business models was the book by Alexander Osterwalder and Yves Pigneur, in which he tried to give a definition that most fully describes the term. According to him, the business model describes how the company creates, delivers and implements value, this business-model is also known as “Business Model Canvas”. The concept developed by him involves a description of the business model through nine blocks that show the logic of how the company makes money. These nine blocks are combined into four business areas: customers, supply (product or service), necessary infrastructure and financial viability. In other words, according to Osterwalder and Pigneur, the business model is a plan of how the company's strategy should be implemented within its internal structures, processes and systems.

The Business Model Canvas described by Alexander Osterwalder and Yves Pigneur will help me in this work, to fully reveal the business model of sheep breeding enterprises in Kazakhstan. This business model consists of nine blocks that describe:

1. **Customer segments** - this column identifies the main consumer segments. Who are all these people? What are they afraid of? What do they want to get? How can we affect them? What do they listen to, where do they go, and what do they value? If gender or age is important, need to highlight them. The main thing is to clearly indicate who specifically buys the goods.

2. **Value propositions** – in this block, those values that consumers ‘really buy’ should be highlighted. It is necessary to describe not the product itself, but exactly what it does and what problem it solves. For example, if it is a car, then the value may be a speed, reliability or brand. Separately, it should be emphasized that the client is buying and what he would like to buy. It is possible that he does not buy exactly what he needs, there are simply no alternatives. It is worth analyzing. Perhaps they work with you because of the convenience or delivery conditions, and not the range, or vice versa. The main task is to determine exactly the key value that draws the client to your side.

3. **Channels** - through which the company contacts with customers are an integral part of any business. Moreover, it is important to consider absolutely all channels: first contact, persuasion, delivery, post-purchase service, advertising, etc. All customer contact points should be considered.

Do they completely satisfy customers? How convenient are they for the company? Do they fit into the client's business?

4. **Customer relationships** – What kind of relationships built with each of the segments? Is this what they expect? Are they all happy? Who has the individual contract with the company? Who has the general contract? How much does it cost?

5. **Revenue streams** – in this section, it is necessary to note all the revenues that the company receives divided by types. For example: fixed-price with fixed income, floating prices, renting, etc. It's better to attach characteristics to all sources and share in the total income. Thus, it distinguishes the main, most important flows, and additional ones. This will help to determine the development strategy for the future: what to strengthen, what can be dropped or not pay special attention to.

6. **Key resources** – the next step is to identify the necessary resources. Moreover, all the resources that are needed both for production and for building relationships, distribution channels, etc. should be allocated here. Resources must be broken down by type: finance, raw materials, human, intellectual, intangible (for example, patents, certificates).

7. **Key activities** – in this case, it means what immediate steps need to be performed for all of the above steps. The stages of the production process, delivery, advertising, the creation of post-purchase services, etc. In other words, this column indicates the main stages of the work of the business process itself.

8. **Key partnerships** – here we need to write out those partners without whom a business cannot exist. For example, these are advertising agencies, suppliers, consultants, freelancers, outsourcing companies. What key resources do they supply? How stable are they? Is there a supply guarantee? Is there any way to save on this? Are there any alternatives? Is barter possible on products? What kind of relationships?

9. **Cost structure** – What are the most important costs in a business model? Which are the highest? What activities require maximum spending? Fixed costs, variable costs, salary expenses, taxes, price of resources, etc. All the most significant expenses should be allocated. Similarly, must be indicated their share in the total amount of expenses for the period.

### **Data collection and analysis**

In the process of working on thesis, data were collected from primary and secondary sources. The study uses, as the main source, interviews of experts with many years of experience in cattle breeding (sheep and cattle, since the main processes of breeding cattle, sheep and goats are identical). This method of qualitative research helped to collect information about the situation of

sheep breeding in Kazakhstan and to understand the main problems and development trends in general. Sheep husbandry organizations did not even analyzed their business in terms of a business-model in the past.

The survey involved 12 experts involved in sheep and cattle breeding. The interview questions focused on identifying each of the 9 aspects of the business model, according to Alexander Osterwalder and Yves Pigneur (2009) Business Model Canvas. In addition, the survey method for collecting data is more flexible since new questions always arise during the survey, which help to fully describe and analyze the research question. Some experts who now work in different companies did not want to share any information about them in my work, while other experts gave me permission to post information about them. As a secondary source of information, used different publications, books and articles, which generally confirm the answers received from experts in the field of animal husbandry.

## **Conclusion**

*“A well-managed sheep operation can be highly profitable. Demand for sheep meat is particularly strong, with no sign of softening in the near future. Australia, the world’s largest exporter of both sheep meat and wool, has a declining flock size that is set to fall to 67 Million head this year, the lowest size in over a century. This is set against increased demand from emerging economies transitioning from carbohydrate focused diets to protein, competing against established markets such as the Middle East for this limited supply. In China, the largest importer of both Australian and New Zealand sheep meat, this demand is leveraged further by the current incidence of African Swine Fever. In the last 12 months supply of Australian lamb to China increase by 42%.*

*Demand for wool is less linear. Fine and super-fine wool is mainly used in top end apparel; suits, skirts, shirts and trousers. Essentially luxury fashion items, demand is more volatile and more closely linked to disposable incomes. Coarser wool, used in floor coverings, curtains and insulation receives less of a premium, but is cheaper to produce and prices are less volatile.*

*In the past the most profitable sheep enterprise was super fine wool. Presently, the greatest revenues are from lamb and mutton, although wool prices remain strong. In the future it is likely that the best return in the sheep industry will be a blend of sheep meat and wool.”* – Philip Jarvis Rolf, Executive Director of “Direct agriculture” (company from Australia), experience in sheep and cattle farming for over 25 years, one of my experts, his farm covers an area of 1 500 ha, 10 000 sheep and 150 cows graze on this territory, and only one manager looks after the herd.

In Kazakhstan, pastures are regulated by the general land code and can be leased by the state for 49 years to persons with a registered private farm. Contracts imply exclusive use by individual tenants, although in practice they are often forced to join together to cover costs. The contracts stipulate theoretical obligations for the restoration of degraded soils, as well as the sustainable use of territories, otherwise the government has the right to take the land back (to the state reserve). Abandoned land may also be confiscated. Households that do not have registered pasture land currently graze livestock on pastures around villages shared by all residents. In the absence of collective grazing systems, access to pastures outside these areas is difficult for small ranchers who are not able to cover the costs of moving animals, labor, infrastructure and operational costs of pasture registration. This situation has led to serious degradation of pastures around settlements. The inaccessibility of water sources and other infrastructure facilities in remote pastures also significantly limits the area of pastures suitable for use. The lack of local state control of pastures, as well as the lack of associations of pasture users, means that there are no local management institutions that can coordinate the use and development of pastures.

The primary condition for increasing the economic efficiency of agricultural enterprises is a significant reduction in costs. Natural steppe pastures, which are the source of “free” forage, appear to be more economically attractive against the background of expensive fodder crop rotation and improved pastures. However, the productivity of natural steppe pastures is comparatively lower. Therefore, focusing on natural forage land requires an increase in pasture area. To preserve the productivity and species richness of natural steppe pastures, the development of permissible pasture loads and their observance is necessary. Why optimize pasture load? Overgrazing yields steppe pastures many times over. At the same time, the drought tolerance of the lands decreases sharply, which causes an acute problem with providing livestock with pasture fodder in dry years. Animals receiving an insufficient amount of feed are unproductive, which dramatically reduces the economic profitability of the economy. One well-fed cow in a good pasture gives more milk than two hungry ones in a downed pasture. Moreover, in the second case, the cost is 2 times more.

Rational use of pastures is one of the most significant problems in grassland management. The correct system of grazing animals should ensure not only their optimal productivity, but also the optimal yield of cheap livestock products per unit of used pasture area with minimal negative impact on grass (*Figure 1*).

Pasture technology is not just walking, but a system of feed production and livestock maintenance. There is a technology of rotational batching when livestock only consumes grass from pasture. The animal must eat grass without leaving vegetation above 5-10 cm, it is necessary that the grass grows again. A permanent fence, an electric fence, are installed along the perimeter

of the pasture; the area, depending on the size of the herd and the productivity of the pasture, is divided into squares based on the daily ration. It is necessary to bring water into each square of the pasture so that from any point to the drinker it is no more than 100 m. Also, the management of the pasture assumes the availability of a set of equipment and software for monitoring moisture, soil temperature, precipitation, forecasting grass growth, the cost of growing it, and drawing up a plan reseeding, fertilizing, etc. After bleeding in a square, livestock returns to it only after 10-30 days (Figure 2). During this time, the grass has time to grow and will be either mowed or eaten. Then fertilizer can be added to the soil (if there is excessive grazing) this is the rotational use of the pasture. In summer, livestock spend the night in the field. Shepherds are not needed.

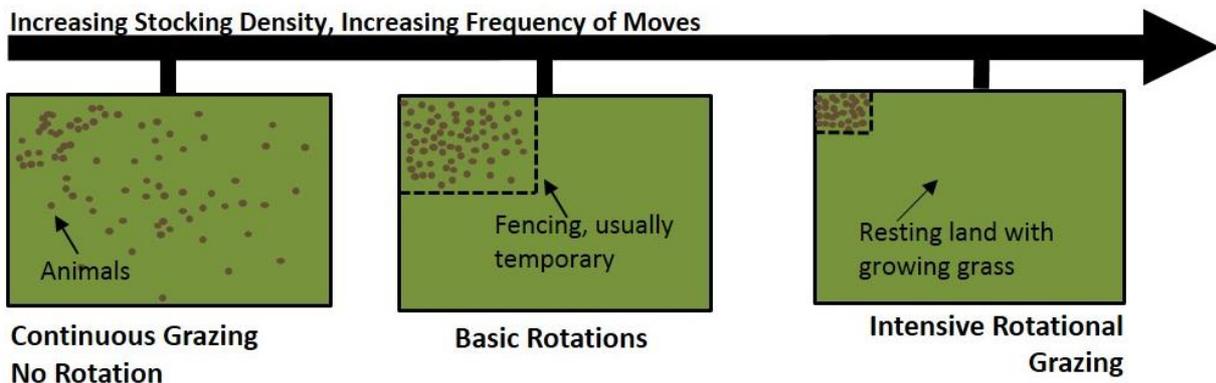


Figure 1. Grazing styles

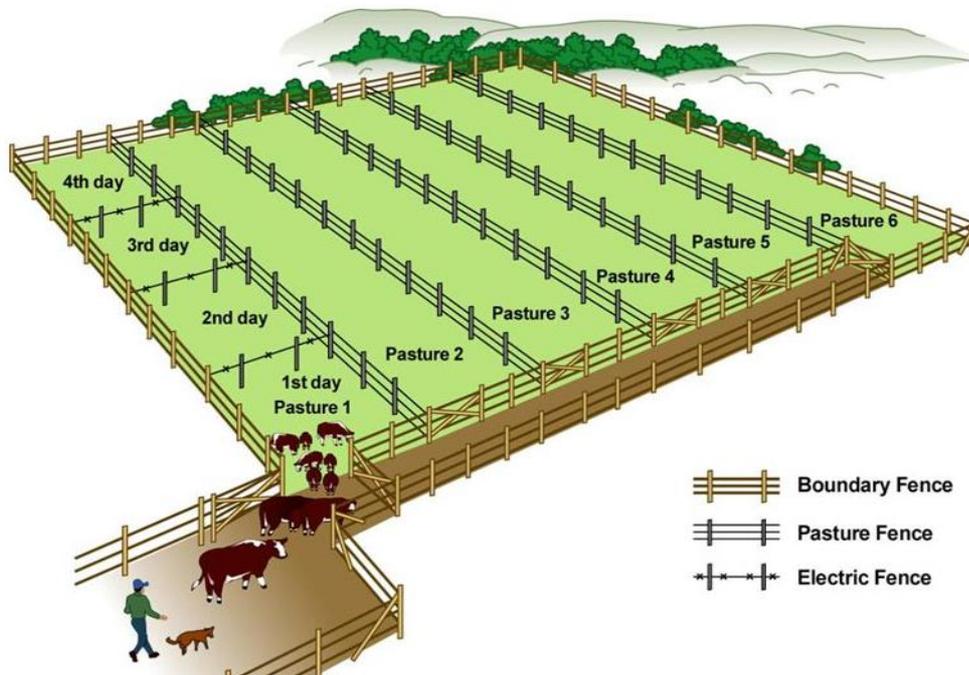


Figure 2. Cell grazing system.

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# **“Industry 4.0 and Automobile Industry in Kazakhstan: A Business Model Perspective”**

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## **1. Introduction**

### History and Evolution of Industry 4.0

Starting from beginning in our history, human civilization had several revolutions. Revolution (Latin revolver origin) – very important changes in the way that people do things, by replacing previous version and adopting new rules. According to history, the following are the four main industrial revolutions:

- A. The First Industrial Revolution: First industrial revolution started in Great Britain in the middle of 18-century, when landlords happened to own the major part of land, in fact the owner leased lands to farmers, further farmers hired human resources for sowing works. This model of economy gave an idea of agriculture business model elements.

Since landlords had an easy income they were thinking about enlarging their profits so the idea of investing on their lands appeared, it caused the agriculture revolution. The more harvest farmers collect the more income all market players were sharing That's how the agriculture revolution started. Booming agriculture forced all aspects of life to change. In modern history, the process of change from an agrarian and handicraft economy to one dominated by industry and machine manufacturing. developing agriculture gave big volumes of harvest, as an example the cotton. Farmers got cotton in big volumes so further they were expected to transfer them into textile, during that time the competition was tough, the Indian textile was way high quality and labor force was way cheap. One of significant example of first industrial revolution is a mechanized spinning, which gave competitive advantage for textile producers. The textile industry was a starter for huge industrial revolution. Further mechanize production involved the development of other resources such as coal, water and steam. Such inventions caused huge changes in business model at that time and give new trends for more and more inventions in terms of production. In other words, people started to produce more and more easily, with help of machines. The whole idea of production, the speed and the volume of production changed completely, the owners

were not depended on labor force incredible ability, machines replaced human resource easily. Replacing human resource was very attractive in terms of expenses. As result there was a textile boom, there is an offer there would be demand. Another significant example of revolution were steam engines, first they were used to produced manufactured good, later railways further steamships. At that time the rail way communication was invented, which means transport and logistic solutions were implemented. Inventing steam engine created ideas for its transformation in terms of benefits.

- B. Second Industrial Revolution: Technology has changed the world in many ways, but perhaps no period introduced more changes than the Second Industrial Revolution. The Second Industrial Revolution, some name it as Technological Revolution, is more about mass production with the help of electricity, boom start for petroleum and steel millennium, lets say more about natural resources. According historical data Second Revolution starts in the middle of 19 century up to start of First World War. Comparing with first industrial revolution second was more about scientifically proven developments rather than successful inventions. What our generation takes as granted were mostly invented during second industrial revolution, examples could be everything, such as electricity, houses, cities, collaboration, urbanization, transportation, aircrafts and mostly weird ideas. Significant proof of development period is an electricity, how human managed to control and spread light, to curb the electric power. In 1870s the first efficient commercial electrical generators were possible for public usage, it started in England the first electrical street lighting installation was demonstrated. Step by step the innovations were occurring, further the was a telephone communication, radio communication, mass paper production gave possibility for books and newspapers distribution. During second industrial revolution the rail way communication was blooming, the factories were growing, the urbanization started. So, people, human resources started to move into cities close to working places, to factories, to manufactories. The true management ideas came from this period of time. During this period the human resource management ideas were developed. It was a period of growth for pre existing industries and expansion of new ones, such as the steel, oil and electricity, the production methods were improved, as example steel was replaced by iron, because it was cheap and strong. So it made possible to build rail lines at competitive cost and spread transportation. Steel was used in construction of ships, skyscrapers and large bridges.

- C. The Third Industrial revolution: Also called Digital revolution happened in 20<sup>th</sup> century, just in few decades people were able to operate computers and work in Internet, enlarged communication tools. The boom in industry, organizations are embracing electricity technologies for mass production business with low expenses. Digital era gave high level automation and there are two main inventions – automatons and robots. The traditional approach to digitization defines “ the use of computer and internet technology for a more efficient and effective economic value creation process” (Reddy and Reinatz, 2017) Digitization is a phenomenon affecting all sectors, where traditional products are either replaced with digital counterparts or least equipped with news digital feature. After mechanization of production the era of automation, control, monitor and self reproduction appear. There was less harm fro human during working process and more safe and guarantee for result. When prototypes of robots replaced human forces in different field of heavy industry, again boom in production. At the begging of third industrial revolution people achieve more and more inventions and implementation with a help of so called robots easily. As history shows the manufacturing industry and automobile industry is very relevant, one support each other and can not be separated, since industrial revolution was driven by vehicle product in many countries and has influence on whole country economy development. If the automobile industry were country it would be be the fourth largest economy in the world, the size of industry revenues estimated at \$3,500 billion and projected to reach \$6,700 billion by 2030. The industry employs approximately 9 mln workers all over the world. According to available estimations (OICA 2017) each direct automotive sector job supports at least another 5 jobs in the supply chain. In peace time, specially after second world war the cars became symbol of consumption, the availability and ownership of cars revolutionized the mobility of people and goods. The mass production gave a chance for every single consumer to be able to own personal, all products become personal. Before mass automotive production the car ownership reflected “Nation Wealth” – to quote Adam Smith.
- D. The Forth Industrial Revolution: Also called Industry 4.0 as mentioned above is heavily interrelation between digital technology, production, services and AI. It is a new method of doing business, since AI is around consumers. Example could be any field of human life, banking service, grocery stores, entertainment and even in medicine. AI gives more advantages for efficiency, companies are more willing or forced to change the ways of holding businesses. The benefits of AI or BD is to avoid errors in

production, forecast or predict demand, to choose correct side of coin. This industry brought more safety in human life, more informative and accessible platforms for communication or information, more opportunities for success. “The 4.0 industrial revolution does not change what human does but it changes humans”\*. Industry 4.0 describes “the organization of production processes based on technology and devices autonomously communicating with each other along the value chain” (Smith et al. 2016). The automobile industry is a pioneer of the so called Industry 4.0, because manufacturing factories already using new technologies. According Boston Consulting Group report dated 2015 the Industry 4.0 relies on nine technologies:

- Augmented reality
- Additive manufacturing or 3D printing
- Big Data and analytics
- Autonomous robot
- Simulation
- Horizontal and vertical system integration
- The Internet of Things (IoT)
- Cybersecurity
- The Cloud

## **2: Industry 4.0 and Future of Automobile Industry**

The fourth industrial revolution will take what was started in the third with the adoption of computers and automation and enhance it with smart and autonomous systems fueled by data and machine learning. (Bernard Marr)\* in other words, as in all revolutions were very important is communication between human and machines and here in new technology are there are no need for human involvement, computers are connected and communicated with one each other to ultimately make decisions, which is high percentage of right combination. As a result of support of smart machines that keep getting smarter as they get access to more data, the manufacturing will get more efficient, productive and less wasteful. What is connection of computers? A combination of cyber- physical systems, the Internet of Things and the Internet of Systems make smart factories possible. Cyber –Physical system (CPS) is a system in which a mechanism is controlled and monitored by computer based algorithms in simple words, but CPS are integrations of computation, networking and physical processes, when connected computers and networks monitor and control the physical processes, with feedback loops where physical processes affect computations and vice

versa\*. The Inter of Things - the term IoT encompasses everything connected to Internet, but more likely to define objects that talk to each other, stating simply sensors to smartphones and wearables connected together. The Internet of System – without IoT standards for communication and interoperability, industry will end up with confusion or potential customers having to select proprietary devices by a company or consortium (Jim Sinopoli)\* .It is difficult to standardize a “thing” or sensor when the data must communicate and be interoperable. The IoT things are now system and system manufacturers, include Google, Apple, Amazon, Samsung, Philips and etc, all big players of market. Although IoF is growing, some from heavy industries, have invested billions of dollars, while others, service oriented or light industries are less sure of how to derive value from IoT. The Industries include utilities, oil and gas with 56% already adopting IoT, as opposed to 36% with light industry.

The Four Industrial revolution sets a number of challenges for manufacturing companies. From technological, organizational and management point of view. The future production system demand new competencies from employees. The work organizations are expected to become more flexible in time and space, workflows become more transparent, decentralized and less hierarchical. The exact risk of digitalization is difficult to forecast, but more than 25% of jobs are at high risk of automatization. Growing level of competition have made basics for companies to increase their innovation capacity and productivity and reduce their time to market. The innovations in digital technologies give the companies competitive advantage over others. Changings happen in products life cycles, consumer expectation, needs and market becoming more heterogeneous. By improving productivity, the equality of manufacturing can be increased and waste reduced. Significant improvements can be also achieved in energy, the Industry 4.0 can possible affect environmentally sustainable manufacturing.\* The impact of Industry 4.0 will reflect in all aspects of human lives, on process and they on the way the civilization perform. The opportunity of the internet in terms of eliminating the distance and the ability to instantly transfer large data influence many areas of life, and deeply affect industrial production and processes. High-tech manufacturing operations feel these changes earlier. It is inevitable for the enterprises operating with traditional technologies to be exposed to this effect in parallel with the change of environmental structure. The Industrial 4.0 transformation of the industry will deeply affect human resources management processes due to its business environment. At each stage, it is foreseen that technology-integrated business processes will cause some of the unskilled employees to lose their jobs, while the higher qualified employees will be needed more, but it will be difficult to find these employees and keep them at work. Industry 4.0, which was adopted at the beginning of 2011, has become a market of billions of euros from a technical term within a period of 6 years. By 2020, it is expected that only 140 billion Euros will

be invested in Industry 4.0 within Europe. Furthermore, it is anticipated that 14 billion devices will interact with each other through the Internet of objects (ESO 2015)\*. The one of the greatest innovation and example in the era of Industry 4.0 could be 3D Printers, why it is so important that government and organizations pay much attention on this machine. What is the 3 D Printer? The 3D printer is a machine that transforms digital three-dimensional computer data into real objects that can be handled. All mechanical parts except engine and electronic parts are printed by 3D printers (Festo 2016). 3D printer technology addresses a wide area. The areas of usage of this technology have a range from information technologies, genetics, medicine, to industry, food, and jewelry. With 3D printers, a lot of things are produced, including human tissues and musical instruments. These devices drastically reduce production costs. While the creation of the design in the virtual environment is achieved through various Computer-aided design programs, the CAD is scanned with an existing object and transferred to the virtual center by scanning. Prototypes that can move with unlimited color options are produced with 3D printers. At the present the Industry 4.0 characterized by increasing connectivity, interaction, and development of digital systems, artificial intelligence, and virtual. With the increase of convergent barriers between humans, machines and other resources, information, and communication technology certainly have an impact on various sectors. One of them is impacting the education system. How education system will change in near future since “At present, at least 65% of children who go to primary school will work in jobs that do not yet exist when they have completed school education,” said WEF (2016), the World Economic Forum’s “Future of Jobs” report. The solution is training, Training is one of the most important elements of Industry 4.0. Recruitment of the intelligent machines and the qualified labor force that can use these machines, training of the expert statues, the formation of a structure that will perceive the cyber-physical systems, and the updating of the education system from primary school to the university. The medical field can gain huge advantages from Industry 4.0, the smart manufacturing and information system. It can increase overall performance by providing a digitally controlled management system to patient. Example could be Chinese pilot project of distance treatment, a national network including approximately 100 provincial or municipal medical centers has been established to enable collaboration on rare diseases across China. The main objectives for this project are to develop and apply medical guidelines and clinical pathways for rare diseases, to establish a rare disease patient registry and data repository system. This project expects to develop an actionable medical services, a plan to increase the delivery of quality healthcare for individuals and families living with diseases in China.\*

### **3. The Research Objectives and Questions:**

Over the past 50 years the automobile sector has invested billions in enterprise systems, automation solutions, and advanced products technologies. Industry 4.0 describes “the organization of production processes based on technology and devices autonomously communicating with each other along the value chain” (Smit et al. 2016). The industry 4.0 is the result of civilization evolution, mechanization, industrialization, all aspects of human life some how pushes revolutions happen. The automotive sector represents more than a simple industry. Since the late nineteenth century, it has embodied the economic and technological power of nations, the lifestyle, the dynamics of urban and territorial development, and it has acted as a national barometer of economic success and failure.

Nowadays more and more cars are being manufactured, than any other time in history. According statistics in 2018, manufacturers produced in total 95 million vehicles worldwide, including 70 million cars and 25 million commercial vehicles. Car manufacturers are expected to experience the greatest benefits from Industry 4.0, example is using one assemble line with different shapes and models of cars. The production in car industry is forecasted to increase for 10-20 % with new technologies. The kaizen method could be the primary version of Industry 4.0, since the theory of kaizen is up dating and illuminating muda (Japanese for waste or useless”. My personal understanding is that all those revolutions were just a tools of economy, to maximize profit and minimize expenses. So who benefits from 4.0 industrial revolution? And how to implement Industry 4.0, What are benefits for economy?

### **Research question**

The aim of this Research is to examine the impact of the Industrial Revolution 4.0 on Car manufacturing evolution. Does it bring changes in technologies, production and performance.

**Research methodology.** In this Thesis Research one of the methods, that will be used, is collection and analysis of primary and secondary data, including:

- Official web sites of car manufacturers;
- Credible sources with search results;
- Presentations on relevant to this research;
- Statistics data from car manufacturing countries economic and consumers preferences indicators, etc.

In order to find the relationship between Industrial Revolution 4.0 and car production changes. In this study statistical methods of research will be used.

# **“ANALYSIS OF LEADERSHIP STYLE TO MANAGE CULTURAL BARRIERS FACED BY FEMALE BUSINESS OWNERS: INSIGHT FROM KAZAKHSTAN”**

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## **Abstract**

This conference paper discusses an analysis study to manage leadership styles to female business owners and small business development include encouraging social entrepreneurship, increasing credits availability, improving institutional environment and supports from international organizations. Selected policy and practical implications are identified, such as improving institutional development, creating supportive business environment, and promoting social entrepreneurship, overcome cultural, social barriers and hindrances to female business owners of various aspects, internal and external challenges involved in doing business for female entrepreneurs and small scale business owners of today’s business industry in Kazakhstan.

In general, factors that enhance female business and small business development include encouraging social entrepreneurship, increasing credits availability, improving institutional environment and supports from international organizations. Selected policy and practical implications are identified, such as improving institutional development, creating supportive business environment, and promoting social entrepreneurship in methodology.

The purpose of this paper is to analyze ways to enhance female business entrepreneurs and overcome all barriers of female business owners in Kazakhstan promote entrepreneurship development, the government should engage in redirecting and integrating the emerging entrepreneurship into legal and productive sectors of the economy. This requires the governmental commitment to strengthen entrepreneurship by establishing the institutional, legal and cultural supportive, It should include basic reforms such as reviewing registration and reporting procedures, eliminating restrictive practices such as long and difficult process to deal with government officials, improving tax administration and continuing its efforts to decrease underground economy.

**Keywords:** Transformational Style, Transactional Style, Female Entrepreneurs, Kazakhstan

## Introduction

Today in this present time of the world women entrepreneurship is a phenomenon that has a tremendous impact on employment and the global business environment business and small business owner's development are essential in the economic transformation of Central Asian countries, such as Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan, from centrally planned economy to the market-oriented economy. The nature of female business and small business development under these transitional economies differ somewhat from those developed market economies in such a way that financial and capital market conditions are generally more stable and favorable for female business owners and small businesses.

About the nature of female business and entrepreneurship under transitional economies and to what extent it differs from that of developed market economies, in which institutional environment tends to be more stable and favorable. As noted by some researchers who studied entrepreneurship in transition economies, programs and policies that have been successful in one country may not be necessarily effective in another country because of cultural and governmental differences. Therefore, the purpose of this study is to understand certain conditions relating to the recent developments of cultural entrepreneurship and especially female business owners and their barriers to business sector in Kazakhstan at the time of its economic transition. In addition, this study intends to identify motivational factors that encourage female entrepreneurship and small business development in the region. (Smallbone and Welter, 2001, 2006, Female business owners (n.d.). Retrieved January 10, 2020, from Kusnezova, 1999)

## Problem and Objective

In Kazakhstan, **the portrait and perception of female business owners** seems to be quite different and divided among people and in culture. Entrepreneurs interviewed in Kazakhstan were from 30 to 60 years old also with 10 to 20 years of running own business, both male and female business owners were unanimously agreed that the successful female entrepreneurs among their clients are women with the masculine character ("a woman in trousers"). They often operate in traditional female businesses, such as beauty salon, restaurants and shops. (Meruyert Abugaliyeva. 2020 Business women in Kazakhstan, Retrieved December, 2019 <https://www.edgekz.com/businesswomen-in-kazakhstan-opportunities-and-challenges-they-face/>)

**Women entrepreneurs and gender factor** Entrepreneurial activities in most countries are known to be male dominated especially in the developing countries, the ratio of women entrepreneur to men entrepreneur varies considerably across the world. Women entrepreneur operate within gender bias among other constraint that can constitute a threat or create opportunity

for women entrepreneurs (Eren, 2012). The women entrepreneurs are often marginalized to the informal sector, however, the ability of women entrepreneur to formalize and grow their business to create jobs and enhance productivity is hampered where barriers exist that affect men's and women entrepreneurs differently.

## **Literature Review**

**Transformational leadership style** concentrates on the development of followers as well as their needs. Managers with transformational leadership style concentrate on the growth and development of value system of employees, their inspirational level and moralities with the preamble of their abilities. According to Bass, the aim of transformational leadership would be to, transform people and organizations inside a literal sense - to alter them in the mind and heart enlarge vision, insight and understanding clarify reasons make behavior congruent with values, concepts and brings about changes which are permanent, self-perpetuating and momentum building. (Bass B. M., 1997)

**Transactional leadership** style relies more about "trades" between the leader and follower by which followers are compensated for meeting specific goals or performance criteria. The transactional leader will first validate the relationship between performance and reward and then exchange it for an appropriate response that encourages subordinates to improve performance. Trottier T., Van Wart M. and Wang X., 2008

However, women continued to have their position as an entrepreneur and business owners an important source of working force around the world as shown in Female Entrepreneurship Index above, In addition to that, due to no relevant data available of Kazakhstan and of its neighboring countries for female entrepreneur and business owners, and similar in many ways, today's Kazakhstan represent country with different context in many social security things were destroyed and massive violation of labor legislation were happening, women did not feel the same level of social protection, which reflected in the strong demographical downward curve and most importantly in different cultures where male and female business owners in Kazakhstan aims to play their role and waiting to register their share and contribution to country's economical change in small and large sized business enterprises.

## **Research Methodology**

The objective of this research methodology is simply to examine, what cultural and social barriers to female business owners faced in socio-economic structure with the views being expressed by actual and/or potential female business owners and entrepreneurs in a reliable and as close to real-time way in business industry. The results lead us to propose that development of

business micro-blogs can be used as a source of useful uplifting social and cultural hindrances and barriers in the development of female business entrepreneurs and solid relationships within the business industry.

The four components of what referred to as a higher order construct of transformational leadership include the following: **Idealized influence**, these leaders are admired, respected, and trusted. **Inspirational motivation**, leaders behave in ways that motivate those around them by providing meaning and challenge to their followers' work. **stimulation**, leaders stimulate their followers' effort to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways. **Individual attention**, leaders pay attention to each individual's need for achievement and growth by acting as a coach or mentor.

### **Data Analysis and Findings**

This study analyzes information is available from the current literature on the reasons why Kazakhstan women are reluctant to penetrate into the entrepreneurship arena. The gender pay gap by type of economic activity varies greatly. In the area of administrative and support services and education, women earn more than men, which is more than 95%. In the areas of health and social services, the wage gap is also small – women earn 93.3% of men's income. In sectors such as finance and insurance, women's average earnings reach 66.7% of men's earnings, and 64% in the professional, scientific and technical fields of activity, and 50.4% in the arts and entertainment sectors. (Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, Retrieved January 10, 2020)

In this connection, in 2018, women headed only 17.9% of large enterprises, 30% of small and 34.7% of medium-sized enterprises in Kazakhstan. Education is the only area of activity where the prevailing proportion of women is leaders (64.4%). 47.4% of senior managers in healthcare and social services are women. In the financial and insurance sectors, 41.7% are women managers, in the hotel and restaurant business sector – 41.1%. A small number of women leaders are noted in agriculture (14.8%), mining (12.7%), and construction (16.9%). (Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, Retrieved January 10, 2020).

### **Summary**

This concluding chapter highlights the various concepts, themes, and issues rose regarding the role of female leaders in the field of business and barriers they face in culture of Kazakhstan. It concludes by considering two leadership concepts: the transformational leadership style; and the

transactional leadership style; their strengths, weaknesses, and importance to female business owners.

## **Conclusion**

In conclusion, providing female business owners quality formal and casual expert improvement openings is not simply an issue of sexual orientation value; it is financial good judgment. Women-owned organizations assume a vital job in the social and monetary advancement of leadership styles all things considered and they are getting progressively predominant. Females business can assume a significant job by teaming up more viably and setting up relationship to advance their needs and interests by managing cultural barriers.

## **Recommendations**

Future research is recommended to further understand how to lift cultural barriers for female business owners and to start new venture efficacy and career expectations affect the decision to start a new business in a particular industry. It would be particularly beneficial to study different venture efficacy and career expectations of prospective female business owner entrepreneurs prior to the start of the business and what cultural barriers they face commencement in business. Similarly, greater attention should be given to understanding how venture efficacy develops in different female individuals

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# **Digital marketing in Kazakhstan's universities and their competitiveness in the struggle for new applicants by examining "Almaty University"**

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## **Abstract**

The article is devoted to the use of Internet marketing in order to increase the competitiveness of the University. Approaches to rating University websites were considered as well as the main problem for their promotion. The analysis of the research results is presented in the paper.

**Keywords:** internet marketing, Online advertising, sales funnel, consumer-purchasing behavior, types of advertising, Universities of Kazakhstan

## **Introduction**

Information technologies development, among which one of the key places took. The Internet, the emergence and rapid growth of e-Commerce became the basis for the emergence of a new direction in the modern concept interaction marketing-Internet marketing. The term "Internet marketing" refers to the theory and methodology of the organization marketing in the hypermedia environment of the Internet. Internet marketing — this is the practice of using all aspects of traditional marketing on the Internet, affecting the main elements of the marketing mix: price, product, place of sale and promotion. The main purpose of using Internet marketing is to get the maximum effect from the site's potential audience.

The following are the main elements of the Internet marketing package:

Product — what is sold using the Internet should have a decent quality. It does not just compete with others sites, but also with traditional stores.

Price — it is assumed that the price online prices are lower than in a regular store, by saving on costs.

Place — point of sale, that is, the site. A huge role is played by both graphic design and site usability. usability-literally "ability to use", " ability to be used», "usefulness") is a concept in macroergonomic, indicates the final level of usability the object to be used for the stated purposes. Russian — language equivalent-convenience), and the quality of processing requests from the site. Also worth pay attention to the download speed and performance with payment systems, delivery terms, working with customers before, during and after sales.

Promotion -a set of measures to promote both the site and the product as a whole in the network. It includes a huge arsenal of tools (search promotion, contextual advertising, banner advertising, email marketing, affiliate marketing, viral marketing, hidden marketing, interactive advertising, working with blogs, etc.

## **Literature review**

Digital marketing, in its current form today, is considered a kind of marketing which is applied all over the world to promote products or services and target consumers using a wide array of digital channels. Digital marketing is not only limited by Internet marketing and includes channels that do not need the Internet. It incorporates cell phones (SMS and MMS), smm, display ads, search engine marketing, and many other different formats of digital media. Digital marketing overview digital marketing overview

With the digital media works nowadays, consumers are able to access information anytime and anywhere they please too. Furthermore, consumers don't simply count on what a company tells them about its brand, they can also track what the media, friends, associations, coworkers, and so on say - you say that, too. Digital marketing refers to different advertising methods that can be designed to help acquire new customers through digital technologies. Moreover, digital marketing encompasses a wide range of marketing strategies designated for services, products, and brands that primarily use the Internet as the main advertising medium in addition to cell networks and old-fashioned television and radio. Canon iMage Gateway is encouraging customers to distribute and share their digital photos with their friends online. The l'oréal Lancôme brand uses electronic news emails to communicate with customers which should lead to better customer loyalty to the brand (Merisavo et al., 2004). Magazines and publishers drive their customers online through email and SMS messages to accelerate the pace of re-subscribing (Merisavo et al., 2004).

These days' marketers are trying different ways to bridge the gap between a brand and consumers' lives on a daily basis. Rapidly changing role of consumers as co-creators of value is very critical now (Prahalad and Ramaswamy, 2004). Khan and Mahapatra (2009) both claim that technology has a key role to play in improving the quality of services provided by businesses. By the words of Hoge (1993), electronic marketing (EM) means the distribution of goods or services from a seller to a buyer through one or more electronic types or media. Electronic marketing started in the 19<sup>th</sup> century with the use of telegraphs. Invention and massive adoption of the telephone,

radio, and television, and later cable television, electronic media is becoming dominant force in the marketing force. Using McDonald's as an example, we can say, that many use online channel to enhance its brand messages and relationships. In doing that, they build online communities for children, such as the Happy Meal site with games that educate and entertain kids and keeps clients in a close distance (Rowley 2004). Reinartz and Kumar (2003) discovered that the volume of company's mail efforts has a positive effect on the company's profits over time. The major upsides of social media marketing are about the low costs and better coverage. The cost of a social media platform is usually lower compared to other marketing platforms such as personal sales or sales via intermediaries or distributors. In addition to that, social media marketing creates an atmosphere for firms to reach customers who may not be easily available due to the time and local restrictions of current distribution channels. Generally, the important advantage that can be singled out about social networks is that it increases coverage and decreases costs (Watson et al. 2002; Sheth & Sharma 2005).

Chaffey (2011) explains that social media marketing encourages communication with clients on the company's own site or via presence on social media. SMM is an effective method in digital marketing as companies can apply it to spread their messages to their target customers without having to pay to either publishers or distributors which is standard for traditional marketing. The following types of marketing such as digital marketing, e-marketing, e-marketing, and Internet marketing are all very close terms which refer to marketing on the Internet, be it through websites, online advertising, interactive kiosks, emails, Interactive TV, or mobile phones (Chaffey & Smith, 2008). Giese and Gote (2000) in their book state that customer information satisfaction (CIS) for digital marketing can be understood as the amount of affective responses of different intensity that follow consumption and are driven by the focus aspects of trade activities, information systems (websites), digital products/services, customer assistance, after-sales service, and corporate culture.

Waghmare (2012) points out that a many Asian countries are currently leveraging e-Commerce through discovery, which is considered key for promoting competition and distribution of online technologies. Zia and Manish (2012) arrived at a conclusion that shoppers in Metropolitan India are nowadays stimulated by e-Commerce: these consumers are willing to book travel, purchase consumer electronic goods and books on the Internet. Regardless of the fact that the rate of spending per online shopper is still quite low, about 59% of online consumers in Metropolitan India now eagerly do online shopping at least one time a month. Dave Chaffee (2002) understands

e-marketing as “the usage of digital technology – online channels such as email, websites, mobile/wireless and digital TV as well as databases to assist marketing activities which are created to make profits and retain more customers (within the multi-channel buying cycle and customer lifecycle) through boosting customer knowledge (their values, profiles, behaviors as well as loyalty factors) and also providing integrated communications and online platforms that can satisfy personal customer needs. Chaffee's definition mirrors the concept of relationship marketing; it stresses the fact that e-marketing should be built around a business model rather than technology. To add, all types of social media serve as a good opportunity for the companies to introduce themselves or their products and services to different communities and individuals who may become interested (Roberts & Kraynak, 2008). According to Gurau (2008), the online marketing environment create a number of opportunities as well as challenges for marketing specialists dealing with social media.

### **Research questions**

Internet marketing in commercial companies already has a certain history of existence, but in non-commercial companies, especially in state institutions, it is only in its infancy, and even then it is extremely rare. The use of Internet marketing technologies in higher education institutions today is more likely to bringing a new educational program or course with a similar original name to the market than is actually possible fixed stories.

Internet marketing in universities can be represented by several positions:

- 1) The University's website and its problem promotions;
- 2) Sub-sites and subsections of the main site of educational divisions;
- 3) An increasingly active form of interaction between students and teachers — e-mail, networking (blogs, LJ, Vkontakte, Instagram, Twitter, Facebook, etc.).

The consumer market of any University is potential and real consumers, clients-students who want to get higher professional education and are ready to devote the best years of their lives to it. Naturally, to inform applicants about their offers (educational services, educational programs) by universities the site is used. Today, the main problem for many universities is the targeted content of educational programs and convenient navigation. The solution to this problem requires constant attention, since there is no one right decision. The next problem that applies to University websites is the lack of design.

Design is an eternal theme of effective layout and content optimization in order to promote the site on the Internet. There are attempts by some portals to build ratings of the most advanced sites of universities for certain variables. But they do not allow you to name the best of them, with the exception of Western sites of colleges and universities. Kazakh universities do not yet have the necessary budget for this.

## **Methodology**

In order to evaluate and plan ways to improve the site of the University of Almaty - [www.almaty.edu.kz](http://www.almaty.edu.kz) together with University students, a study will conduct 500 respondents in a questionnaire. The main questions contained in the questionnaire were as follow:

1. How often do You visit the website of our University?
2. What is the reason for visiting the website?
3. How do you rate the design of our University's website?
4. How often is the site updated?
5. How would you assess the completeness of information on the site?
6. Do you have any feedback for our University's website?
7. How is the search structure developed on our University's website?
8. What are the disadvantages of our University's website? can you mark it?

## **Data analysis**

The data were presented and analyzed in the following sequence: analysis of the student's presence according to the survey data. The findings include the results of a General study and some recommendations have been developed on the basis of these findings.

**Data collection:** Since the purpose of the report was to obtain reliable information about the current level of customer satisfaction among customers, primary data was needed. Primary data was collected by using a quantitative data collection method survey-based methodology.

## **Conclusion**

The main problem for many universities today is the choice of strategy. Higher education establishment that has embarked on the path of a customer-oriented organization and marketing strategy achieves great results in the development of new features of the Internet. Today, this choice is selected by more and more commercial and non-state universities. The Internet has unique characteristics that differ significantly from the characteristics of traditional marketing tools. One of the main properties of the environment, The Internet, with its hypermedia nature, characterized by high efficiency in the presentation and assimilation of information, which significantly increases the ability of marketing to strengthen the relationship of enterprises. The Internet also creates unique opportunities for using traditional and non-traditional methods of marketing communications and advertising. Tertiary education institutions have excellent competitive advantages, which will be used by those who have marketing built on a higher level.

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# **“Why Lean Management is harder to launch and implement in Kazakhstan than in comparison with USA?”**

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## **Abstract**

This article will describe you what the lean management is, how it works, where and why it adapts easier and why it is beneficial for companies to implement it. The lean management main concept is about maximizing profit and minimizing costs. It is collaboration of methods, processes and instruments used to continuously improve processes, products and services. I will prepare different research regarding why lean management adapts easier in USA rather than in Kazakhstan and named the most influenced aspect for it. We will also consider famous companies' cases of successfully implementing the lean management and what particular benefits they gain out of it. Finally, we will be able to understand the idea of lean management and understand how it works, where and why.

## **Main Body**

In 1960 was born the first understanding of Lean management developed by Eiji Toyoda. The main root of lean management is Toyota Production System (TPS) from Japan, which started to develop from 1948. There are a lot of similar concepts, i.e. TPS (Toyota production system), Kaizen – translated as “Improvement” and “good”, Just in Time production – using Kanban system allows producing only as much as demanded. I were Japanese version, we also have American version as lean management, lean manufacturing – both lean have an idea to eliminate wastes, continuous improvement – actually even the translation is similar to kaizen, six sigma – the process that allows to have only 3.4 defects per million. Out of what the main and most spread is TPS and Lean, both have similar concept, methods, processes and instruments. We will mostly use Lean management in this article, which is an approach to managing an organization that supports the concept of continuous improvement. The aim is to continuously having an incremental improvement of products, services and processes in order to increase efficiency and quality.

Lean Management uses different methods, process and instruments in order to eliminate eight possible wastes, such as: defects, over processing, overproduction, waiting, motion, inventory, transportation and non-utilized talent. Each group of waste have common and special causes of occurrence, the effect can be combined or single. Where defects can be caused by unqualified employees, incorrect using or storing the products, lack of final quality control and the process, which itself allow the violation. According to the process that allows the violation, is a

good example to consider the Toyoda Automated Loom Works, where the first were almost fully manual loom and then Sakichi Toyoda improve the loom constantly and even implement a process where the automation is fully stopped if the process is going not in a correct way. This allows the manufacturing process to not produce defects and eliminate them at the very beginning. It helps companies to save money for eliminating the consequences of defective products and increasing consumer's satisfaction.

The main idea of lean is to minimize eight possible wastes, where first is over processing can be caused by unknown technology of implementation, not understanding of a whole cycle, unknown customer expectation and demand and poor quality of raw material. Second is over processing which is not expected to be or is not needed to the customer, but you as a company spends the resources, such as money, time and effort of your employees to implement it. Third is overproduction that can be caused by excess purchase, lack of understanding regarding to demand, not inflexible planning, long readjustment and poor quality. Overproduction is also the waste of the company, when you have to pay more for the storing of produced items, if you have incorrect forecasts, if something goes wrong and it will take you long time to readjust it and poor quality will require producing more and for sure the company will have surplus. Fourth is waiting, which can be caused by unequal speed of processes, not functional placing of equipment and working places and unequal power. As an example for waiting waste, we can consider that to produce the product should pass 10 steps and all steps have significantly different necessary time. So that, from step 1-4 it takes 15 hours to finish, while from step 5-9 it takes 3 hours and at the last step it takes 20 hours. Here we can clearly see the waiting process of those steps, which spends much less and they do not have any other option rather than wait. Fifth is motion, which can be caused by the lack of want to sit and think what can be improved, unqualified employees, when employees did not know that they can change the process, incorrect placing of working place and equipment. As an example, we can consider a normal staff, usually when they hired, they have been told what and how to do and unfortunately, they even do not think how it can be done better or why they need to do it. Most probable if they understand why they are going to do it, they will distract unnecessary steps that do not add any value to the product or service and consequentially it will save cost. Sixth is inventory that can be caused by the habit to stockpiled, long readjustment, lack of demand report, high percentage of defects, and unequal speed of production. Here for example, if we will have high percentage of defects, then you need to have more inventories in order to overlap the needed quantity with no defect product. Like if you need 10 items, but you know that there 30% defect probability, you will purchase at least for 30% more than you need. Seventh is transportation, which can be caused by incorrect address entry, incorrect product and lack of availability. From my own

experience there are cases, where if you are retail company and you should delivery the customer things that are actually can be placed into 1 car, but unfortunately 30% of products are not available, you are forced to delivery two times, which will multiply your transportation cost for this purchase twice, which mean that the profit which you should receive from your customer will proportionally decrease. Last is non-utilized talent that can be caused by incorrect employee distribution, lack of recognition from you manager, incorrect motivation system and lack of employee involving. If we consider the case that the employee do not get fair recognition from his manager, his engagement will drop, according to the Adam's equity theory, if the person get more output that he give as an input and get less output than the give an input, he or she will lose the motivation. The input and output scale should be equal in order to achieve more efficiency.

As we can notice, some waste groups have similar causes; some of them can spawn another one, so they are interconnected between each other. 7 out of 8 possible wastes were developed by Taiichi Ohno, Chief Engineer of Toyoda, and the last non-utilized talent were added later and recognized as another possible waste. These wastes spawn the main not value-added expenses, which can be minimized in order to maximize profitability.

Lean management have processes, tools, methods and instruments for different situations, how to make structural improvement, how to identify root causes, how to create an action plan, how to sustain the progress. If we will list major words most frequently used in lean management, there are: 5S, poka-yoke, TPM, Kanban, value stream mapping, Process Maping, SIPOC, SMED, Isikava diagram, 5W, A3, PDCA, Six sigma. All these concepts support the idea of lean management to minimize cost and maximize efficiency.

All this concepts are related to lean production, to minimize or even eliminate waste, to make improvements in a structural ways, to identify root causes and to create a culture of continuous improvement. The strengths of Lean Management is to make improvements in a structural way. The structural improvement have advantages, because it makes improvement process organized, planned, transparent and understandable, it even helps to avoid of turn away from the right way. The lean management it is the way of thinking to continuously improve processes, products and services, the way of identifying wastes in order to prevent or minimize them, which will help to decrease expenses and increase the profit.

If to consider the USA's known companies using Lean approach, there are John Deere, General Electric, Zara, Amazon and Starbucks. John Deere shrank its inventory 28% in twelve months. As a percentage of sales in the same twelve months, Deere's inventory was only 12.3%, what is the lowest index among the other fifteen farm and construction equipment productions.

Zara make success through its 'Just in time' or Lean business model, they breaks the common supply chain processes by holding low stock and updating their collections continuously. Twice a week as store managers make orders clothes are come on time. To ensure this happens, ZARA controls more of its manufacturing aspects rather than most of their competitor retailers do. To support the Just-in-Time production most companies as well as Zara uses Kanban method it helps companies to visualize their resources. Another is the agility in Zara, rather than outsource the human work from Asia, they invest and make an automated production in Spain, and they also have small factories over North Africa and Turkey. What allows Zara to increase their profit by 28%. Zara also uses one-piece flow system which is opposite of mass production. One-piece-flow is the movement of one piece of product in a production process. General Electric thinks that the actual manufacturing time takes only 1% of all, while other is lead time. So, it leaves huge opportunity to constantly improve things. Amazon have very well thoughtful warehouse, they do not divide shelves by product types, they can put every staff into one shelf if it fits by size. They use scanners to fix every movement of product and can find out every item by searching via information transferred from scanners. This system allows amazon to make huge savings on inventory holding cost in their warehouses. Starbucks in lean project boundaries try to move items closer, they also moved the location of commonly used syrups, alter the order of assembly of the coffee. Starbucks offers over 80,000 different combinations of drinks all over the world. It seems impossible to remember every unique combination for the Starbucks' employees while making multiple drinks at the same time. Starbucks, however, has a universal code to keep track of the drink specifications. The coffee cups have special design allowing cashiers to understand and communicate every minute detail of your drink to the Starbucks employee preparing the coffee. It was few interesting things from companies listed above.

The quantitative method will be used as a research methodology for this topic. I will prepare questions and conduct interviews in order to analyze the problems in Kazakhstan. While for analyzing US companies and culture I will search a data from the internet, from articles, books and other academic publishing. In case of considering US region it is easier to collect reliable data due to the number of publications and researches that had been already done. While considering Kazakhstan, we do not have enough research information, so I need to investigate by myself. Approximately i will ask from 20-30 respondents to answer for my questions and help me to collect their opinions and knowledges. As I will get enough information for both countries, I will observe collected information, analyze and compare with each other. To analyze the data, that have been collected from respondents, I should think critically and try to see the whole picture if I want to understand the vision of respondents and can make concrete conclusion. Sometimes, I can conduct

a survey for those, who do not know the lean management concept; in this case, I will explain the concept and only after it ask their opinion.

The objective of my paper is to analyze why it is difficult to launch Lean management in Kazakhstan rather than in United States. Many of famous companies are launched Lean many years even decades before and still use this concept. Consequentially, they are very successful in managing the company and as an employer. As an example, we can consider companies that have Lean management: Starbucks, Amazon, Zara, General Electric, John Deere, etc. Even from this companies we can realize how lean management support in continuously improving things, which help companies to gain the competitive advantages and to succeed overall.

The main psychological reason of inefficiency of implementing lean management in Kazakhstan is cultural differences. If we consider the way of thinking, Kazakh do not usually think how to improve something, because it is about long-term process. When you do an improvement, you invest time, money and effort, while Kazakh people are used to fixed the problem immediately, like a firefighting, which is unfortunately short-term. From Hofstede Cultural Dimension this part is about long-term versus short-term orientation. In USA is more long-term orientation, majority understand that the problem should be fixed from the root cause. While, majority of us even do not see the necessity to improve something.

As a conclusion I can add that if we really want to become a continuously developed country, first of all we should change our mindsets and start to think in a long-term. When making a choice, we should not think about short time benefit, we should scale both the short term and the long term benefit, only after what we should choose what is better to do now.

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# **“Low job satisfaction explained by Holland’s theory as the main reason of low life satisfaction in Kazakhstan”**

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## **Abstract**

The past year researches show that the high level of life satisfaction has a positive impact on the other factors associated with the overall country’s performance. This paper focuses on the job satisfaction explained by Holland’s Theory as the main reason that causes the low life satisfaction in the Republic of Kazakhstan. This hypothesis was tested by conducting the survey among the high school students in Almaty. The main aims were to understand the percentage of future workers who choose the specialization that confronts their Holland’s personality types, and to identify the external and internal forces that influences that decision.. This mismatch of the personality and job environment types is suggested as one of the main explanations of the decreasing life satisfaction in the country.

*Keywords:* life satisfaction, job satisfaction, Holland’s Theory, high school students, external and internal forces

## **Main Body**

### **Introduction and objective**

The career choice is one of the most important decisions that affect the overall life satisfaction. The past year researches have proved that there is a positive relation between the level of job satisfaction and the life satisfaction itself. Based on that a number of studies were made in order to understand the best criteria to choose future specialization. A lot of theories and tests try to identify factors that may form such kind of predisposition of an individual and based on that outline the main field of career perspective.

The main problem which is considered within this research is the fact that the overall well-being level in Kazakhstan has decreased during the past several years (from 2015 to 2019) (World Happiness, 2019). Moreover, based on the global data provided by the World Health Organization, Kazakhstan was on the third place in the suicide statistics in 2019 (WHO, 2020). Statistics shows that one of the main reasons of suicide in the world is because people are depressed. Depression itself can be caused due to a number of different factors. Of course, there is no any direct dependence on dissatisfaction with work and suicides, but one of the main causes that were identified are financial problems and the lack of motivation. It can be concluded that, from one point of view, people think that there is no any sense to live without work that provides financial stability and gives motivation to live.

Theoretically, there are two approaches that are used to explain happiness: hedonic and eudonic (DelleFave et al., 2011). The first approach states that happiness is a combination of two components: desire for pleasure and avoidance of pain (Ryan & Deci, 2001). Some researchers describe the happiness as the level of life satisfaction and emotional experiences (Unanue et al. 2017). However, life satisfaction is very subjective and can be measured by each person differently. A number of researches has resulted in the fact that the life satisfaction significantly depends on the career progress, environment in the workplace, commitment within the company and job satisfaction as a whole.

### **State-of-the-art literature review**

The 'career decision-making' term was firstly used in the book "Choosing a Vocation" by Frank Parsons. Parsons supposed that there are three factors that affect the vocational choices: "(1) a clear understanding of yourself, your aptitudes, abilities, interests, ambition, resources, limitations and knowledge of their causes; (2) knowledge of the requirements, conditions of success, advantages and disadvantages, compensation, opportunities, and prospects in different lines of work; (3) true reasoning on the relations of these two groups of facts" (Parsons, 1909).

Brown (2002) has identified the key theoretical bases of career decision making process, that are psychological and sociological. The psychological factors are best described as internal forces. It includes some personal characteristics, interests, feeling and emotions. The sociological factors, on the contrary, are represented by external forces that affect an individual from outside. For instance, family, friends, society, culture and all other factors associated with the surrounding environment and other people.

The Holland Theory was firstly introduced by John L. Holland in 1959 in 'The Journal of Counseling Psychology'. The article caused a huge feedback and made a significant contribution in the career choice decision making process. The counseling psychology has undergone some changes since that time. However, Holland's career code has been accurate and useful even today. The majority of the modern career choice theories and practices include some modified versions of Holland's code.

According to Holland's code (RIASEC) there are six types of personalities: Realistic, Investigative, Artistic, Social, Enterprising and Conventional. Every person has his or her own order of those six letters. The order of each personality type depends on the ranking of the best description, that diversifies from individual to individual. The career choice should be made, based on which dominant type of personality an individual has. All six types are formed based on the combination of different factors, such as interests, skills, abilities, personal values and culture. Holland (1997) in his article about the 'Theory of vocational personalities and work environments' supposed that people are tend to look for a job that has an environment which suits their own personality types. The percentage of match between these two factors has direct influence on the level of job satisfaction and overall performance in the workplace.

The satisfaction index shows the overall level of satisfaction in the country. It consists of a number of factors, such as the level of life, satisfaction with government, job or society itself, and so on. The World Happiness Report is based on the global survey, which covers 156 countries all over the world. This report

has been published every year since 2012. Firstly it was published in support of the topic “Wellbeing and Happiness: Defining a New Economic Paradigm” that was discussed on the UN High level meeting in April 2012 (Helliwell, Layard & Sachs, 2019).

The main aim of the research was to identify the world available information about the life satisfaction of each particular nation and to confirm that the quality of people’s life can be measured by accessing a number of different factors, such as the rate of unemployment, level of freedom, national GPA index and so on.

The top 5 ‘happiest’ citizens in 2019 live in Finland, Denmark, Norway, Iceland and Netherlands (World Happiness, 2019). The rank of the Central Asia countries is as follows: the leading country is Uzbekistan - number 41, Kazakhstan is placed under number 60, Tajikistan - 74, Kyrgyzstan - number 86 and the last one is Turkmenistan - number 87.

### **Research methodology and data collection tool**

The career decision making process can be used in order to analyze and explain under the influence of which factors an individual make decisions related to his or her vocational choice (Sharf, 2002).

The main aim of this paper is to understand the key factors that affect the high school students in their future career choice and to identify the percentage of students who choose their future specialization that is mismatching their Holland’s Test type.

The data collection will be primarily based on the survey that will be conducted among the high school students. The survey will be divided in to two parts. The first part represents the Holland’s Test, in order to identify an individual personality code for each participant of the survey. The second part will be consisted of 6 questions. The aim of the first question is to identify the interest area of the student by choosing the particular set of preferred subjects. The second question is focused on the outlining the reasons, why this or that subject is preferred by a student. The next question is about the future career perspective. This question gives a choice of six different spheres of potential job. Each of these six spheres fits six Holland’s job environment types. The fourth question asks whether the career choice of a student depends only on the personal feelings, or it is influenced by external factors. The fifth question is directed to find out which motivation forces influence the decision-making process of the high school students in Kazakhstan.

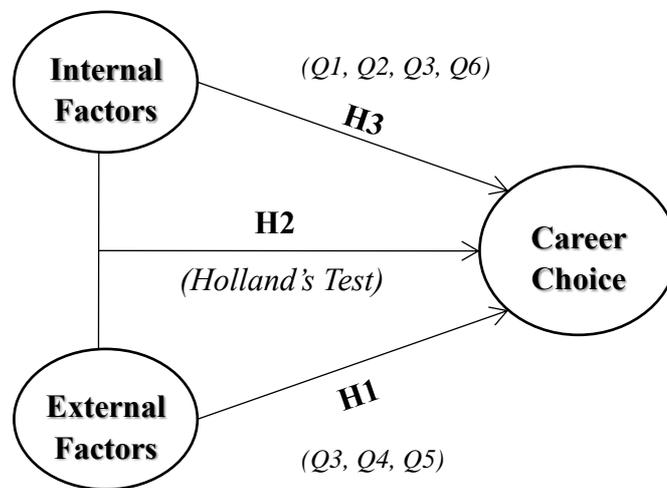
And the last question asks to conclude if a student expects that the chosen profession will motivate and inspire him or her in the future.

As it was previously said, the level of life satisfaction has a direct relation to the level of job satisfaction. Based on this assumption some hypotheses can be made in order to explain comparatively low rank of Central Asia countries in the ‘World Happiness Report’, by focusing mostly on the level of satisfaction in Kazakhstan and by connecting it to the vocational choice process among the high school students. Each hypothesis will be checked by specific questions accordingly. The related hypotheses are as follows:

**H1:** *The level of happiness in Kazakhstan is not so high due to the mismatching of personality types and actual job occupation of citizens.*                      **Holland's Test.**                      —————>

**H2:** *Vocational choice of high school students in Kazakhstan is mostly depends on the external factors rather than internal ones.*                      **Q3, Q4, Q5.**—————>

**H3:** *The percentage of mismatching between the personality type and vocational choice of high school students in Kazakhstan is high.*                      **Q1, Q2, Q3, Q6.**▶



**Data analysis with critical thinking and discussion**

The main problem that is being considered in this research is about the overall well-being level in Kazakhstan has decreased during the past several years (from 2015 to 2019) (World Happiness, 2019). This fact have a direct influence on the overall economic statement in the country and its performance in the global market. One of the main potential reasons can be the level of job satisfaction that influences the overall life satisfaction. However, this criteria is subjective and can be explained within different factors. In

this paper the Holland's career code is used as the measure of personal satisfaction in the workplace, and considered as the important cause of changes in the happiness level in the country.

After collecting the following data, it will be able to analyze the received results and outline a linear regression model by considering both, internal and external factors, which affect the vocational choice among the young generation. The model will give an opportunity to make future forecasting of the level of job satisfaction in Kazakhstan and understand whether it impacts the level of life satisfaction as a whole.

### **Summary, conclusion and recommendations**

According to Hayo and Seifert, the level of life satisfaction, or happiness, is important subject to study due to a number of facts. Firstly, any economic policy is aimed to increase the level of overall life in the country. Secondly, the market economy in the country is supported primarily by the level of life satisfaction in the country. Thirdly, there is importance of identifying subjective and objective criteria of happiness. Number of studies state that there is a direct relation between the level of well-being and macroeconomic data, such as gross domestic product, inflation rate and unemployment. Therefore, it is important for countries to analyze the key factors that affect the well-being in the country, in order to increase the overall productivity of the domestic economy.

There is a huge number of researches and papers that are focused on the relationship between life and job satisfaction. The high level of life satisfaction predicts a positive impact on the country's performance in other aspects of the economy and the level of life in the country as well. If the number of people who choose their future specialization based on the internally preferred one, the overall job satisfaction will be increased. This fact will probably help to decrease the unemployment rate in the country and improve the happiness index among the citizens.

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# **“Valence Effects of video reviews on YouTuber’s behavioral responses: expert video review vs consumer video review”**

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## **Abstract**

This study examines valence effects of video reviews on YouTuber’s behavioral response by assessing the role of reviewer on the overall video review influence. Particularly, this research studies how the previous experience of the reviewer and the type of review (positive vs negative) influence Kazakhstan consumer’s emotional and cognitive response. The main purpose of this research is to study the valence effect of video reviews of hotel services on factors, such as telepresence, information helpfulness, skepticism and studying YouTuber’s behavioral response to the video reviews. Four experimental scenarios were created on Google forms, using YouTube videos. The research is still in progress and 360 responses are planned to be used as a sample for further analysis. The survey was developed using a 7-point Likert scale.

**Keywords:** valence; behavioral response; video review of hotel; video review effect.

## **Introduction and objective**

Video review is not a widely used marketing tool and it’s effectiveness on consumers’ decision making process in hotel services is not studied deeply on Kazakhstan’s market. This research was made to find out what factors, such as information helpfulness, booking intention, sharing intention and visiting intention, are influenced by online video review and what behavioral response those reviews can receive.

The main purpose of this research is to study the valence effect of video reviews of hotel services

on factors, such as information helpfulness, booking intention, sharing intention and visiting intention and studying YouTuber's behavioral response to the video reviews.

## **Literature review**

### 1.1 Telepresence

The degree to which the cyber world can construct a virtual reality has conceptualized an essential aspect of online experience (Steuer, 1992). This virtual reality has been defined in the following two ways: (1) 'the environment created by a computer or other media, an environment in which the user feels present' (Biocca, 1997), and (2) 'a real or simulated environment in which the perceiver experiences telepresence' (Steuer, 1992).

Klein's (2003) study demonstrated that more significant levels of apparent telepresence did in fact lead to progressively serious brand perspectives. Her examination concentrated on two media attributes present in online situations: user control and media richness. 'User control', a quality of online media, is a segment of intuitiveness. Klein utilizes the term 'media lavishness' as opposed to striking quality as a progressively spellbinding term to speak to the profundity and broadness of boosts accessible in the online condition. Her outcomes indicated that every one of these media qualities essentially impacted: (a) the level of perceived telepresence, and (b) influence at both the attribute and product level. Also, mild contrasts in the degree of perceived telepresence appeared to significantly affect the power of beliefs and attitudes.

Based on the previous researches we can form the following hypothesis:

H1: The higher perceived telepresence leads to increasing booking intention.

### 1.2 Video review Helpfulness

This review aims to find the connection between video review helpfulness and consumers' decision making process. One of the main reasons for travelers to search hotels' information online is to plan their trip, and it would be reasonable to argue that helpfulness of video hotel

reviews will no doubt influence consumer expectations. (Xinyuan (Roy) Zhao, 2015)

Development of video platforms facilitates an unlimited number of people to potentially join virtual networks by posting and gaining marketing intelligence about hotels of interest.

Confronted with the huge amount of knowledge, only those valuable online reviews will influence the decision-making of consumers. Helpfulness of online reviews have been suggested as an effective predictor of consumers' intent to comply with a review ( Park and Lee, 2009). Several other studies have shown that online feedback may also be useful in assessing the level of usage (Wöber, 2003). Chen et al. (2008) found that the consistency of the analysis, calculated by the number of helpfulness votes, positively affects the decision-making of consumers..

Based on this factor we can make the following hypothesis:

H2: The helpfulness of video review will increase the booking intention.

H3: The helpfulness of video review will increase the sharing intention.

H4: The helpfulness of video review will increase the visiting intention.

### 1.3 Skepticism

Trust is defined as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis, & Schoorman, 1995, p. 712). Earlier researches studied trust and distrust as two opposite ends of the same construct ( Rotter, 1980), but more recent researches show us that trust and distrust are different. Moreover, it is influenced by different cognitive and emotional states. McKnight and Choudhury (2006) also suggest that trust-related constructs such as trusting belief, trusting intention, and structural assurance are distinct from the corresponding distrust constructs and that the distrust constructs predict different effects on Internet users' behaviors. Their results showed that trust

constructs are more predictive when Internet users perceive low to medium risk, while suspicion/distrust constructs may be more predictive when Internet users sense higher levels of risk.

Lee and Youn (2009) believed that consumers would be less persuaded by reviews posted on business websites as compared to the reviews posted on a personal blog or an independent product review website, which can mean that people trust other consumers' review more than to expert review.

This fact leads to the following hypothesis:

H5: Consumer video review is more trustworthy than expert video review for positive video review.

H6: Expert video review is more trustworthy for negative video review.

### **Research methodology and data collection tool**

#### 1.1 Methodology

The current study is still in the process, 360 responses are planned to be used.

An experimental two-way between-subjects design was applied for testing and verifying the independent effects of video review and valence effects on behavioral responses. Four experimental conditions were created to control and verify the independent effects of video review and valence effects on behavioral responses. The respondents are any people who can take an online survey.

Two video reviews of "Hedef Beach Resort" hotel in Turkey were chosen for this research. One of them was positive and one of them was negative. In order to enhance the effect of the video review we showed only extremely positive and extremely negative shots of the video.

Type of reviewer (expert, consumer) and valence (positive and negative) between subject design was developed and four experimental conditions were created. These conditions were developed

on Google Forms platform and the data was collected through the same platform. The videos were embedded from YouTube in Google Forms. For collecting data, a snowball strategy was used, when respondents were asked to invite other people.

## 1.2 Data Collection

The respondents first have to read a short scenario about the reviewer's past experience, there are two types of scenarios: first, the reviewer is expert in hospitality management and the second is a tourist, who decided to make a video review. After reading the scenario they are asked to watch the video and answer the questions. After finishing the first scenario survey, e.g Expert-positive review, they are asked to proceed to the next survey where they repeat the procedure, but this time they will watch experts - negative review. After collecting full data further evaluation and analysis will be conducted.

The scenarios in the research are following:

### Scenario 1 - Consumer positive video review

“This video review was created by the tourist, who visited "Hedef Beach Resort" hotel with her family in 2018 . It was posted on her blog on YouTube. Please watch the video and answer questions below.”

### Scenario 2 - Consumer negative video review

“This video review was created by the tourist who visited Hedef Beach Resort Hotel in 2018. It was posted on his blog on YouTube. Please watch the video and answer questions below”

### Scenario 3 - Expert positive video review

“This video review was created by the expert in hospitality management, who has 13 years of work experience in hotel business. It was posted on her blog on YouTube. Please watch the video and answer questions below.”

#### Scenario 4 - Expert negative video review

“This video review was created by the expert in hospitality management, who has 23 years of experience of work in hotel business. It was posted on his blog on YouTube. Please watch the video and answer questions below.”

In the survey such variables as telepresence, information helpfulness and skepticism were measured. Each of these variables had up to 16 different items and were measured using 7-point Likert scale.

#### **Summary**

The valence effect of video review is an interesting topic to study, because video review is not a widely used marketing tool and it is not deeply studied on Kazakhstan market. This study will allow us to see what kind of emotional and cognitive response video review may cause, depending on the reviewers previous experiment (expert vs consumer) and review's type (negative and positive). Four scenarios and various variables such as telepresence, information helpfulness and skepticism, each of which include several different items, were included in the survey, that is conducted on the Google Forms. 7- point Likert scale was used to measure answers. All of these will help us to make a detailed analysis and will give us the opportunity to give some recommendations.

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**“Co-innovation and value co-creation within ERP usage:  
the case of Employees in Airline company”**

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**Introduction**

Within this project, considering value co-creation of an organization as a more common concept which is responsible for specific mental and social relations in which representatives of firms construct an esteem and beliefs, it is fundamental to find how ERP system implements such kind of work preparation.

Firstly, it is important to define the meaning of value co-creation - it indicates collaborative work with common objectives, values and guides movement through shared beliefs and organizational standards within the company (Groysberg, B., Lee, J., Price, J. & Cheng, J. Y., 2019). It is an imperative developing movement within company which takes dynamic part in forming benefit offerings and processes (Kohtamäki & Rajala, 2016).

To see the implementation of value co-creation procedure in business environment, author decided to analyze the most controlled and organised industry that need to maintain high accuracy in business performance, airline industry, because with increased competition level, it is essential to constantly track rationalization of inside processes and trust level of a company, so company's enormous costs would be effectively divided for necessary purposes. ERP system takes this responsibilities and implements such kind of work process to help enhance efficiency by integrating software.

However, this research paper is devoted to, firstly, analyzing the connection between value co-creation, the fundamental system of collaborative work of any company, and ERP system, the modern basis of the programme on which a company proceeds, and, secondly, how it could attain a pronounced effect by using two different features. Moreover, by searching the bond of these two concepts, it may be possible to identify whether powerfully developed system of co-innovation and value co-creation can be reasons for being chosen among customers.

With the help of ERP, which is a set of systems that integrates various functions including modules for product purchase, manufacture, sales, property administration, accounting and fund, coordinates with the help of one shared database and helps to discover new modes of advantage in a condition of decreased differentiation, it is possible to connect two features of value co-creation

process and obtain effective method to improve the quality of work process (Bellemare, J., Carrier, S., Nielsen K. & Piller F., 2015). Today's ERP system is a single complex in which practically all critical data of an organization is stored and processed, without which the normal functioning of the enterprise is impossible. It coordinates different capacities into one total framework to streamline forms and data over the whole organization. (Ram, J., Corkindale D. & Wu, M.-L., 2015).

Many successful companies experience numerous activities where clients are welcomed to take part within the creation of the firm's products or administrations, advertisements, or other endeavors. Managers require common sense system in order to attain esteem creation potential of associations in worker connections. (Czarnota., 2018). Co-innovation incorporates two (or more) accomplices who manage shared data streams over their organizational boundaries through joint advancement and commercialization exercises.

In this paper influence of ERP on business performance and value co-creation process of workers will be discussed. It is accompanied by case study about the inner situation within internal employees of airline company by taking an observation. Next part will be the methodology, data collection and case details with the results of observation, discussion and conclusion.

Research is conducted by using a mixed method because it requires gathering information with components of both qualitative and quantitative methods. First of all, as a theme mostly about to explore ideas and their connection, by searching for unused approaches of corporate management features, case study to take observation and investigation of well-known airline brands it should be labeled as qualitative, but due to the important analysis and utilization of statistical information as well, it is also an element of quantitative one. Both methods can check inaccuracy and misses of each other. Mixed methods can enhance the quality of the research, confirm the results of each other and lead to a certain conclusion of the project. Study is approached by using correlational research design where analysis of the relationship between two independent features affect each other is carried out. Therefore, type of used source is secondary, which mainly includes auxiliary information or reviews from other explorers, and analysis models that will provide the base and help to identify key moments of study.

## **Background and Context**

The trend collaboration work is gaining scale modern worldview, conquering both small businesses and large companies through interconnection of employees. This trend is explained by a simple and very clear reason, which is the so-called "team spirit", which is consciously implemented throughout life: in primary school, then flows into higher education policy, and from

there - in office work. "Team building" is thus what the Western system of work devotes the lion's share of its efforts and aspirations to. Agreeing to McEwan D., Ruissen G., Eys M., Zumbo B., Beauchamp M., authors of *The Effectiveness of Teamwork Training on Teamwork Behaviors and Team Performance: A Systematic Review and Meta-Analysis of Controlled Interventions (2017)*, components such as brainstorming, administrative coaching and teambuilding trainings have an impact on work quality. According to Lukinaite and Sondaire Report (2017) on Mindset of employees working in organizational structure, co-creation and co-innovation play major role and build up wide range of opportunities such as advancement of work quality and employees start to feel able to voice ideas, being valued and listened.

*“A workplace approach designed to ensure that employees are committed to their organisation’s goals and values, motivated to contribute to organisational success, and are able at the same time to enhance their own sense of well-being.” (Hewitt, 2017, p. 9)*

### **Research Theme**

Work environment is the main theme that whole research process will be concentrated on. Work quality performed by company which uses ERP system in order to measure value co-creation and co-innovation among internal employees needs to be discussed. This examination is linked to the conditions of airline company.

### **Research Problem**

The center point of research is approached by corporate values and collaborative development through usage of enterprise resource planning (ERP) systems, which can be interpreted to the benefit and new achievements of a company. The biggest difficulty that a company can bump into is moving from a value co-creation of different and longstanding data preservation, in which work is carried out by using numerous techniques, to a completely new coordinated firm arrangement basis as ERP. Therefore, the administration of the company should take into account the training of its employees on how to operate based on new principles. What is also important is to choose special activities which can be used to achieve profound co-innovation aspects such as employees’ enjoyment to share ideas, so he or she can feel esteemed and tuned in, because organizations should be ready to improve his or her work environment to get visible and demonstrable results outside company as well, such as building external identity, representing the method or way of working of company as a whole.

### **Research Purpose**

The purpose of this study is an examination of the impact of ERP system on value co-creation development, process of involvement and devotion of employees to the company in order to compare it and search for ways to improve. The study also strives to discover whether ERP usage and success of companies can be related to each other. By exploring the role of involvement as an enabler of developing system of collaborate innovation process within a company, the research contains in-depth case study of inner processes of airline companies.

### **Research Questions**

- Why is it important to control the system of co-innovation and co-creation between internal employees in terms of ERP system?
- Why should innovative companies operate by using ERP system?
- What action should company with a joint creation system take to achieve a pronounced effect by using the ERP coordination?
- 

### **Research Hypothesis**

- Internal Employees are all positively devoted into co-creation and co-innovation process and aware of importance of commitment of whole organization.
- ERP system usage is efficient in improving value co-creation process of airline company;
- Companies that pay significant attention to value co-creation and co-innovation are more trustworthy among customers than companies, whose value co-creation procedure is on the second place.

### **Relevance and Importance of the Research**

As in a contemporary world, methods of running business are changing all the time, it is essential to try to realize them on work process to coordinate more efficiently and open up new avenues of achievements. Brainstorming, sharing ideas on innovations help to increase return on investment, by gaining higher shareholder value. For example, the Starbucks, one of the most successful coffee-shops worldwide, had 30% increase in overall revenue in 5 years, where new politics of using ideas of internal employees was taken (Michelli, J. A., & Parks, T., 2015). Overall, more than 150 thousand (from 291 thousand employees) ideas submitted over the past five years by internal employees all over the world. Secondly, this concept helps to raise the awareness of employees and make internal workers be loyal to their workplace. Employees are open to share ideas, present their own innovations and this creates open dialogue between the top managers, supervisors and first-line managers. Finally, the main goal of company can be achieved by greater

brand awareness. The image of brand is the main criterion on decision-making process of customer, that is why it helps consumers to feel confident about the product or service he or she gains. It creates long-term relationships between customers and bring new ones, by increasing the popularity of brand.

### **Literature review**

Ingo Karpen, award-winning researcher and educator in the field of existentiality of human experiences and the author of *Brand meaning cocreation: toward a conceptualization and research implications* (2016), raised the issue of importance of value co-creation not just within the company, but from the perspective of customer, it is equally essential to control co-innovation process of both sides. To the statement that the value co-creation is an integrated part of work process among employees, he critiqued that consumers' wants and needs are also crucial and worth to control. Nevertheless, he stated that better understanding of preferences and requirements of customer can result in quality of value co-creation. This could be implemented by enhancing the training of skills of front-line employees, who are much closer to customers.

As the idea of joint company leads to the co-innovation and mutual productivity of employees in terms of enterprise resource planning (ERP), the commitment of all business units and their representatives is highly recommended to measure all the time. In accordance with the statement made by Jocelyn Bellemare, Serge Carrier, Kjeld Nielsen, Frank T. Piller, authors of *Proceedings of the 8th World Conference on Mass Customization, Personalization, and Co-Creation* (2017), few studies have explored the conceivable picks up and inspiration from reconfiguring supply chain systems. Whereas major portion of the investigate suggests in general positive impact on the firm's execution, few think about pointing out the potential dangers with this methodology. Also it is important to note that the main and most often used idea of work satisfaction can be explained by Herzberg's Two Factor Theory, which is interpretation of motivation level of employees by two factors: hygiene and motivating factors. However, there is a debate that according to Jędrzej Czarnota, author of *'Co-creation, Innovation and New Service Development'* (2018), mutual influence on each other and social commitment of employees and overall working environment are the main driving forces and much important to make workers engaged. Moreover, he or she peeled away the layers of perplexity to create a step-by-step method through the problematic parts of engagement of internal employees, which includes team building trainings, holding the engagement events and etc.

Concerning more profound implications of corporate culture, Jim MacQueen, world popular organizational improvement specialist in his book *The Flow of Organizational Culture:*

*New Thinking and Theory for Way better Understanding and Process (2020)*, expressed considerations around definitions concerning organizational culture and co-innovation and considers that they ought to be clarified in extraordinary ways. For case, he stated that relations between corporate culture, collaborative work and co-innovation and organizations can be spoken to by Heraclitus' river, since individuals of groups continuously replaced and each specialist may bring another assumptions of reasoning from past work environment and, vice versa, unused bosses who come into your organization some way or another will impact to the internal space of group. In any case, he needed to warn leaders that they must control this process due to the fact that each small alter will impact on future results to the entire company.

### **Key Debates and Controversies**

Concerning the question of importance of controlling the commitment of internal employees, Ingo Karpen has raised the issue of significance of esteem co-creation not just between employees, but from the perspective of client, it is similarly basic to control co-innovation handle of both sides. However, from author's perspective the initial point in creation the value and productivity is to measure the effectiveness of work within the company. Only after that, customers' value co-creation can be considered as one of factors in making changes.

### **Gaps in Existing Knowledge**

By observing the Airline company's system of co-innovation and co-creation, it can be possible to answer the question on why is it essential to improve this part of work process. Furthermore, by investigating various methods to enhance quality of engagement and detecting main problematic parts, at the end of research project it can be possible to find out main actions that company can use to achieve successful results by using ERP system.

### **Research design and methods**

#### **Research design**

Due to the fact that the fundamental purpose is to obtain a degree of relationship between two features, it is chosen to create investigation by utilizing mixed strategies: qualitative and quantitative. Topics can be investigated by searching for surveys and meeting along with making observations. Both strategies can check mistakes or other misses of each other. Mixed strategies can improve the quality of the research and affirm the results and conclusion of the project.

The background data on the web and books are utilized to discover common information about the situation with value co-creation among internal employees in Airline company and the way they are working on it. Consequently, the larger part of resources used will be secondary, which is indirect resources obtained inside not taking part in the process of searching.

## Methods and Sources

Within the first method which is qualitative author will use several instruments such as interview, survey and observation. Within the first strategy which is qualitative a few instruments such as interview and case study will be utilized (Creswell, J. W., & Creswell, J. D., 2018). The interview will be structured, voice of participant will be recorded and then transcribed for analysis. Author will ask about participant's opinion to this issue, new ways of preventing or suggestions and his knowledge of the participant to generally know about the issue of joint working system and what actions can be taken to create better conditions for that. This will help to know one person's experience from exact side of problem. By designing the right conditions for the interview, informal atmosphere, relaxed style and simple recording techniques will help me to get complete answers.

Then, during qualitative method author will use the following instrument of collecting data such as the observation to analyze people's behavior and perspective essentiality of using such kind of method to improve work environment. It is important to mention that participants of this observation will know that he or she is observed.

Next, author will apply Google Forms which provides organisation of questions to ask from 45 to 60 people about their level of awareness on work system not only focusing on one company, but comparing it with other firms of our country. Survey will include closed-ended questions, first of all, about the age of survey participant, it will help to divide answers of people by average age groups. Secondly, it will ask about the opinion of participants about the level of risk of such problem, it will help to know people's awareness of this issue, which answered to the main research question.

Overall, the information that author will get from the interviews, observations and surveys author will collect and try to analyze them, making results. The gathered data will be analyzed and applied to the research questions.

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# “The Impact of Audit Quality on Real Earnings Management: Evidence from Kazakhstan”

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## 1 Introduction

1.1 In recent years, the impact of globalisation on the global economy has led to big changes in companies as markets have become wider and also competitive. Market evolution and constant competition motivate managers to resort accordingly to the use of various manipulation methods to influence the financial statements to show a better picture of the economic and financial situation of companies, due to the flexibility of accounting standards or even inconsistencies by changing financial information.

After scandals with such huge corporations as Enron, Xerox and WorldCom in the USA and Ahold, Adecco and so on. Accordingly, these global scandals have influenced very much the role of external audit in the company, independent auditors and, therefore, the quality of the audit has been called into question (Bekiris and Dukakis 2011). Regarding the restoration of investor confidence, they require greater transparency in financial reporting and the strengthening of the role of stakeholders in the process of corporate accountability, which corresponds to the role of the auditor. According to Choi et al. (2010), audit quality is fundamental to the confidence of capital market players and the economic development of countries. Therefore, it is important to analyze whether the audit is effective in identifying methods for manipulating the results and transfer them to audit reports. Since then, there has been an increase in demand for legislation and management that improves the quality of audits and ensures the independence of auditors (Eilifsen & Willekens, 2008). the external auditor, an independent body that issues opinions on accountability documents and on which users rely for decision-making, there is an increased need for independent audits of financial statements that inspire confidence and guarantee the reliability of financial information.

In response to these needs, there are studies that warn of risk behaviors and their motivations that lead to these deviant attitudes on the part of managers and administrators by causing accounting fraud, with consequences not only for the company itself, but also for potential investors and other stakeholders (Al- Rassas and Kamardin 2016, Becker et al. 1998, Hsu and Wen 2015, Tsipouridou and Spathis 2012). Such studies have contributed to understanding the nature, purpose, and implications of earnings management, which may be acceptable through the flexibility of accounting rules. These permit the adoption of accounting policies that allow managers to anticipate or delay the results in the desired direction, without breaking accounting law. Some studies (DeAngelo 1981, Becker et al. 1998, Francis et al. 1999) that analyze the quality of the audit, focus on the perspective that technical competence and degree of independence are characteristics that can be observed by the size of the company with incentives to maintain the number of clients and their reputation. Thus, a better quality audit is expected to be associated with lower levels of manipulation of results. In this way, it will be expected that specialized auditors representing reputable companies, particularly Big 4, tend to constrain the manipulation of results to a greater degree compared to lower quality auditors. However, companies can adjust revenues by manipulating real activities. Graham, Campbell, and Shiva (2005) believe that managers prefer real-time earning management rather than accrual-based earning management because the latter is more likely to engage an auditor and regulators. This is further confirmed by Cohen & Zarowin (2010) and Chi et al. (2011), who believe that Big N auditors, by limiting accrual-based earning

management, increase the likelihood of a company participating in real-income management. Zang (2012) believes that companies use these types of earning management as substitutes. Several studies of audit quality show that there is a relationship between audit quality and the manipulation of results. According to DeAngelo (1981), Big 4 audit firms are more likely to conduct higher quality audits because they care about maintaining a good reputation in the market, and their auditors are sometimes subject to disciplinary sanctions. The authors (Tendeloo and Vanstraelen 2008) also prove this argument, since they say that companies audited by a Big 4 have lower levels of manipulation of results, compared to companies that are not audited by a Big 4.

**1.2 The goal of this thesis** will be to study the impact of audit quality on accrual-based earning management and real- earning management, as well as the impact of audit quality on earning smoothing.

## **2 Literature review**

In this part, the theoretical foundations of the dissertation will be presented. I will start by explaining the basis on which this thesis is written. The information in this thesis will be indirectly obtained from the financial statements the process that submits the financial statements , being financial reporting will be described. Secondly, I will discuss the theory on which this thesis will be based. Further, I will discuss previous research literature on audit quality, and the relationship between audit quality on real earning management. In addition, I discuss the impact of audit quality on real earning management and the impact of audit quality on income smoothing.

### **2.1 Audit quality**

Audit standards imply that audit quality is achieved by the issuance of the “appropriate” audit report on the client’s compliance with generally accepted accounting principles. However, audit quality is a complex concept and cannot be reduce to a simple definition (Financial Reporting Council 2006; Bonner 2008).

Audit quality is conceptualized in different ways. After De Angelo (1981), the quality of the audit could be called the “market-valued joint probability that the auditor will detect a misstatement in the client’s accounting system and report a misstatement”. Also, the likelihood that the auditor will detect misstatement represents quality in terms of the knowledge and capabilities of the auditor, while the likelihood that the auditor reports misstatement is a measure of the level of independence of the auditor. Similarly, Suseno (2013) emphasizes that audit quality is usually related to the auditor's ability to identify material misstatements in the financial statements. He is further concerned about whether the auditor is prepared to disclose an objective audit report based on the results of the audit. De Angelo (1981) further suggests that audit quality is a function of the auditor's ability, which divides into two functions: technical capabilities and the independence of the auditor. This measurement of technical capabilities is linked in a way to detect material misstatements and errors in the financial statements. Also, this measurement of the auditor’s independence is associated with the reporting of these materials misrepresentations and errors.

And so, measuring audit quality is a complex problem. Efforts to measure audit quality can be identified as direct and indirect measures. Direct measures include compliance with GAAP financial statements, quality control checks, bankruptcy checks and performance results. Meanwhile, the size of the audit company, the term of office of the auditor, audit fees, economic dependence, industry expertise, reputation and cost of capital are indirect audit measures quality

audit (Chadegani, 2011). Previous research on audit quality and its measurement suggested using the size of the audit firm as an indicator of audit quality; It has been suggested that large audit firms tend to conduct more powerful tests and are more likely to be associated with more accurate information than smaller audit firms (Al-Khaddash et al., 2013). Previous studies that have focused on the relationship between audit quality and the size of the audit firm have provided empirical evidence that the size of the audit company and audit quality are positively related. For example, Dopuch and Simunic (1982) found that the size of the audit company and the amount of audit work are positively related because large audit firms have more resources to conduct the audit.

According to Healy and Wahlen (1999), managers participate in revenue management with the goal of either misleading stakeholders about the organization's performance or affecting contractual results based on credentials. Memis and Cetenak (2012) suggested that the degree of profit management may depend on the auditor of the company. In this case, the company may adopt a more conservative approach to financial reporting in the context of a higher quality audit. After the liquidation of Arthur Andersen in 2002, the so-called G-8 auditing companies were reduced to the G-4 auditing companies, that is, Deloitte Touche Tohmatsu, Pricewaterhouse Coopers (PwC), Ernst and Young, and Klynveld Peat Marwick Goerdeler (KPMG). Researchers, including DeAngelo (1981) and Dopuch and Simunic (1982), disclose that large audit firms offer better audit quality because they have more monitoring capabilities, resulting in improved quality and reliability of financial information. This is the big four of the audit company, as proxies for high audit quality, as a rule, have higher monitoring efficiency, which allows them to produce higher quality information and reliability, as discovered by DeAngelo (1981).

## **2.2 Earning management**

In other words, the quality of the audit increases with the size of the audit company. Some studies have provided evidence that the Big Four auditors (as a proxy for higher quality audits) may not provide better audit quality than non-Big Four auditors (Yasar, 2013). Al-Haddash et al. (2013) are of the opinion that the size of the audit company does not matter when choosing an auditor. According to the authors, there may be several factors that affect the quality of the audit; emphasis on audit quality depends not only on the size of the audit company.

As previously mentioned, increasing attention is being paid to earning management as a manipulation technique that allows managers to achieve reporting goals under certain economic conditions (Healy and Walen, 1999; Chen et al., 2006; Chen, 2010). From this perspective, Healy and Valen (1999) stated that "profit management occurs when managers use judgment in their financial statements and in structuring transactions to change their financial statements to either mislead certain interested parties regarding the company's core business performance, or affect the results of the contract, which depend on accounting practices." Also, earning management can be attributed to sound and legitimate management decisions and reporting designed to achieve and disclose stable and predictable financial results (Chen, 2010). Meanwhile, Roychowdhury (2006) views profit management as a departure from normal operating practices arising from management intervention in the reporting process; that is, through accounting estimates and methods, as well as operational decisions.

According to Healy and Wahlen (1999), managers engage in earning management for three reasons: capital market motivation, contract motivation, and regulatory motivation. This can be achieved, for example, by accelerating sales, changing shipping schedules, and delaying research and development and maintenance costs. Chen et al. (2006) described how managers participate in revenue management to minimize capital or political expenses or maximize their compensation, such as a bonus plan and stock options. In this sense, minimizing capital or political costs will work to the benefit of companies, while maximizing compensation will benefit

management at the expense of shareholders. This revenue management practice, in part, can be mitigated by hiring high-quality auditors, suggesting that high-quality auditors tend to offer higher audit quality and provide higher quality information and reliability.

The involvement of managers in revenue management can occur through accounting estimates and methods, as well as the adoption of operational decisions. This intervention includes the manipulation of accruals in terms of sales, shipping schedules, and research, development and maintenance costs. Roychowdhury (2006) is of the opinion that managers participate in earning management through manipulation of the accrual method, that is, manipulation of accruals that has no direct effect on cash flow. This includes underestimating the cost of bad debts and deferring write-offs of assets. In addition, managers can participate in earning management by manipulating real-life activities throughout the year to achieve specific revenue goals. This type of manipulation of real activities, such as reducing research and development costs, will affect cash flows, and in some cases, accruals.

### **2.2.1 Accrual based earning management**

As mentioned above, earning management is a targeted intervention in the external reporting process. Accruals are used to transfer results from one period to another in order to get a “better” view of income at the end of the year. Without accruals, income will fluctuate greatly from year to year, and this will reduce the usefulness of the data presented to users of the annual report. Investors, as a rule, are more interested in incomes that create value over a certain period, rather than in the collected cash flows. Using estimates and accruals to reflect these estimates, the relevance of numbers increases, but reliability decreases (Johnson, 2005). The reliability of the figures is reduced due to the fact that when determining the charges included in the annual reports, you must act at your own discretion.

Managers can increase their earning indicators and set or violate earnings goals. You can also increase earnings to get higher compensation. The marginal benefits of earning management are most significant when earning management is from a small decrease in earnings to a small increase (Burgstahler & Dichev, 1997). The same advantages apply when a small loss is managed with a small profit. To explain this phenomenon, Burgstahler and Dichev (1997) give two explanations. Firstly, a company that reports a decrease or loss of profit incurs sharply higher costs when participating in transactions with interested parties than when a company reports an increase in earning or profit. The second explanation is based on the fact that stakeholders use heuristics to determine the terms of transactions with the company. When it is expensive for stakeholders to receive and process revenue information for all the companies with which they interact, Burgstahler and Dichev (1997) suggest that some stakeholders use heuristic restrictions when there are no zero changes in revenue or zero income together.

Based on the above literature, it can be stated that managers have the motivation to manage income through accruals or manage real income.

### **2.2.2 Real earning management**

Following the implementation of the Sarbanes-Oxley Act in 2002, there was a significant shift from accrual-based earning management to real-based earning management (Cohen et al, 2008). Although there has been a transition between accrual earning management and real earning management, earning management generally remains at the same level as before the Sox (Cohen et al., 2008). In their study, Cohen et al (2008) identified three methods that can be classified as real income management: 1) increase sales by offering discounts or making loan terms more lenient; 2) increased production to report lower cost of goods sold per unit; 3) reduce discretionary costs such as advertising, research and development, and SG&A costs.

Real earning management has a direct impact on cash flows, rather than accrual earning management, which affects only the numbers in the annual report. Managing real earning requires higher costs than managing earning accruals (Cohen & Zarowin, 2010). This can be explained by the fact that real earning management does not meet the best interests of the company, and the costs, assets and activities of the company are changed in such a way that it can harm the company in the long term.

There are at least two reasons why managers use real earning management more easily than accrual based earning management. The first, accrual-based earning management is more likely to be discovered by the auditor. Secondly, it is risky for a manager to rely solely on accrual-based earning management. The difference between unmanaged earnings and the desired threshold may be greater than the amount by which charges can be manipulated after the end of the year. In this case, managers have no choice but to use real earning management until the end of the year, since it is impossible to use real earning management after the end of the fiscal period.

**To investigate the impact of audit quality on earning management, the following research question is used:**

The main problem in this study was to emphasize the fact that the auditor gives us reasonable assurance that he / she will detect material misstatements in the financial statements, including profit management. If large audit firms provide better audits than small audit firms, we can expect that there will be more errors in forecasting for customers of large audit firms.

Therefore, the main issues are:

- How does the quality of an audit firm influence the prevention of manipulation of revenue management by management?
- Is there any influence on the importance of the client and the name of the auditor on the relationship between the size of the audit firm and the prevention of manipulation of profit by management?

### **3.Methodology**

To investigate the influence of audit quality on earnings management and that audit quality generally reduces earnings management (Becker et al., 1998). The manager can use the accruals to "manage" their earning from year to year. Therefore, the proxy for managing profit will be abnormal discretionary accrual. This assumption is supported by studies by Dechow et al. (1995). The model for measuring discretionary accumulation is a modified Jones model originally developed by Jones (1991) and then modified by Dechow et al. (1995).

In the past, earning management has been the subject of many works. Earning management can be measured in many ways. Most of the previous studies used models to calculate unforeseen fees with a focus on specific fees or gaps in the distribution of income. (Beneish, 2001). In this dissertation, earning management is measured using the Modified Jones model. Despite criticism for using this or any accrual model, this is still a widespread method.

The quality of the audit and the impact on earning management have been a topic of research and discussion for some time. The size of the auditor and the fact that he is classified as the Big Four auditor usually reduce earning management. The first evidence for this was found by Becker et al. (1998). So, I used three types of methodology. The first, will the data and selection of public management companies listed on the Kazakhstan Stock Exchange (KASE) from 2010 to 2019, in order to increase confidence in them, test hypotheses about compromise decisions of managers between the actual manipulation of activities and accrual of income, The second method shows measures earning management, there are two types of earning management: accrual-based real earning management. And the last methodology is the Empirical Model.

#### **4.Data collection and analysis**

As the information in this thesis the data collection, I used the Kazakhstan Stock Exchange (KASE) website, will consist of lists public companies. These companies have all the important information about their company, such as: all protocols, financial statements and other documents. I analyzed and compared data on these companies for the period from 2010 to 2018. And in accordance with this information, I created the corresponding results for my dissertation in the form of tables and graphs. Further, data analysis is the most important part of the study. Data analysis summarizes the data collected and includes an assessment of the data collected using empirical or logical reasoning to determine patterns of relationships or trends.

#### **5.Recommendation**

In this thesis, the well-known relationship between audit quality and earning management stems from the relationship between earning accounting and the quality of audit procedures, which may exclude some methods of earning management. Since earning accounting is one of the most important sources of information for making investment decisions, the audit process is considered a very important aspect that needs to be studied, which should serve as an important tool that will reduce incentives for managers to manipulate. declared income.

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# **The impact of mergers and acquisitions in the financial sector on the profitability of banks**

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## **Problem Statement and Objectives**

Last years in Kazakhstan mergers and acquisitions have become very popular not only between business entities but also between banking sectors. Such factors as globalization, liberalization, internationalization of competition and technological developments have just increased this tendency. Today Kazakhstan is in the process of creating a new wave of M&A deals in banking sector.

The combination of term “Mergers and Acquisitions” is relatively new for Kazakhstan and still has no pure definition. Nevertheless, the meaning of these terms is quite regular for many people. Merger is made when two or more companies combine to become one by creating a new business, while acquisition makes the purchase of a shares or assets of a target company in which the latter is completely taken and company stops living. Kazakhstan it is a young country that got its independence in 1991 after end of the disintegration of Soviet Union. Since that time the country changed a lot. A huge portion of public industry was privatized and many private companies were created. At the end of the first 10 years in 2000 the number of banks in Kazakhstan has decreased dramatically. During the 20 years about 180 banks were liquidated or merged. Among 38 banks are working today in Kazakhstan, 24 second tier banks are never merged, while 50% of them were established in 1990s, the period when was a high M&A activity. (Smirnova, 2014)

Thus, there is a need to study the mergers and acquisitions of financial institutions, in particular the analysis of the impact of M&A on the profitability of banks. It should also be noted that in Kazakhstan this topic is not sufficiently studied, which determines the relevance of the topic of this research.

**Purpose and objectives of the study.** The purpose of the study is to analyze the impact of mergers and acquisitions on the profitability of banks.

To accomplish the research objective, the following **tasks** must be solved:

1. Analyze the foreign experience of transactions on mergers and acquisitions of banks
2. To consider the main theoretical approaches for the analysis of transactions on mergers and acquisitions of banks, in particular the impact of M&A on the profitability of banks
3. To determine the methodology for assessing the impact of M & A transactions on the profitability of banks and to test it on a real sample of transactions.

**The subjects of the study are mergers and acquisitions of banks.** The subject of the study is the aspects of evaluating the effectiveness of M&A transactions, in particular the impact of transactions on the profitability of banks.

**Theoretical and methodological basis** is the work of foreign researchers of mergers and acquisitions in the financial sector. In particular, studies such as Bruner (2002) - 4 ways to assess the payback of M & A transactions, Fadzlan (2004) - the impact of M & A on the efficiency of banks in Malaysia, Altunbas and Ibanez (2004) - the impact of similarity between M & A

participants on profits and Badreldin and Kalhoefer (2009) - the impact of M & A on the results of banks in Egypt.

**As the main method of data analysis** econometric modeling is used. Also, such research methods as the system approach (combining analysis and synthesis) and the graphical method are used.

**Description of data samples.** The information base of the study is the financial statements of banks prepared in accordance with International Financial Reporting Standards (IFRS) and Kazakhstani stock exchange (KASE) reports.

**The practical significance** of the study is that:

1. The findings of this paper can be applied by M & A participants in the banking sector for making more effective decisions
2. Analysis of M & A transactions in banks is relevant for the study of shareholders and management of banks, regulators and consultants.

### Literature review

The research question of my Thesis is –“What are the effects of Mergers & Acquisitions activities to the financial performance of the Kazakhstani banks?” This part of the work analyzes the academic research on mergers and acquisitions, which includes general studies of the effectiveness of mergers and acquisitions, as well as the most relevant work on the banking sector, analyzing the impact of transactions on the profitability of banks through the analysis of financial statements. The purpose of literature review is to analyze various ways of substantiating the relevance and relevance of the research topic, setting research questions, searching for data sources, applying data analysis methodologies and formulating conclusions and results. In addition, the motives for mergers and acquisitions in banks and factors for the successful implementation of transactions are analyzed.

**Iris Mariich(2014)**, deputy director of the department for escorting corporate transactions and business restructuring KPMG in Kazakhstan believes that buyers need to carefully prepare for the transaction and try to find the help of experts, who are competent in the specificity of the local market and local business practices. Buyers need to take into account additional security mechanisms to prevent losses in the value of the company - the object of the transaction during the transition period.

**Vladimir Bovkis(2017)** are believes that if the financial sector is changing, then the economy is alive, strengthening its position and preparing for serious competition.

**Kosanov (2012)** believes that optimization of the branch network, operating expenses, processes and increase the efficiency of activities achieved as a result of the merger, will improve the efficiency of the "United Bank". The merger will increase the investment attractiveness of the United Bank will increase the possibility of selling the bank to a strategic investor at a more attractive price as a result of increasing the scale of the bank's activities.

**Sergey Frangulidi (2008)** discusses that Kazakhstani banks have remained the main players in the financial sector on the mergers and acquisitions market. The financial sector, which is suffering from the poor current situation on world markets, looks very promising from the point of view of merger and acquisition processes. It is normal that, in the light of the current situation

Kazakh banks are being undervalued, but the addition of the major financial institutions which have suffered least from the problems associated with subprime mortgage credits will increase the chances of development for banking institutions by expanding opportunities for securitization, improving technology, the quality of business processes and so on. Nevertheless there is as yet no reason to talk about any foreign expansion from the side of Kazakh banks.

**Paolo Sorbello (2017)** considers that in nearly few months, Kazakhstan's financial environment could change dramatically and feature far fewer, stronger banks. The whole operation is being bankrolled in one way or another by government funds. Will the sector be able to survive or not will be seen in future.

Analysis of **Gordon A. Walter and Jay B. Barney, (2007)**, shows that different types of mergers and acquisitions are characterized by different managerial objectives. The implications of this research for the development of a contingency model also the relationship between managerial objectives and mergers and acquisitions.

**Paul A. Pautler (2001)** discussed the effects of mergers and acquisitions. Of most direct interest to those concerned with merger-related antitrust issues are three types of empirical studies: stock market event studies, large-scale accounting data studies, and case studies that use either interview methods or more objective, data-intensive, pre-merger and post-merger performance approaches to study individual mergers. In recent years, researchers have begun to merge the stock market study approach and the accounting or finance approach in the hopes of providing a more robust analysis.

**RobertF. Bruner (2002)** in his article "Does M&A pay?" Identified 4 ways to estimate the payback of M & A transactions:

1. *EventStudies* - Analysis of the shareholders' returns from the increase in the value of shares and the payment of dividends in the period before and after the transaction. At the same time, the excess return means the difference between the total profitability (price change and dividends) and the benchmark (which is calculated by the capital asset pricing model (CAPM), or as the profitability of a large index, such as the S & P 500). This approach is based on the premise that the market price of a share reflects the present value of future cash flows.
2. *Analysis of financial statements of companies*. This method provides for the analysis of financial statements before and after transactions. We consider such indicators as net profit, ROE (return on equity) and ROA (return on assets), earnings per share, and liquidity of the company. The main research using this method is whether the profitability of buyers was higher than that of their competitors who did not participate in M & A transactions.
3. *Polls of top managers*. One of the most obvious methods of research is simply to ask top managers how effective the deal was (for this it is necessary to interview a sample of top managers with a standard list of questions).
4. *Case Studies* or "*clinical studies*" of individual transactions. This method consists of detailed analysis of specific transactions, in particular through interviews with top managers or experts.

Each of these types of research has certain advantages and disadvantages. The main disadvantages of various types of research:

- *EventStudies* - not all companies are traded on the exchange; contains an assumption about the effective functioning of the stock market; the method is vulnerable to other events affecting the value of shares
- *Analysis of financial statements of companies* - in some cases, reporting may be incomplete or not comparable for different companies (for example, companies in different countries may distribute reports in accordance with different standards)
- *Polls* - usually, polls have a very low percentage of participation and accordingly their results are not always correctly generalized; polls are subjective opinions
- *Case Studies* - small sample

**Milbourn, Boot and Thakor (1996)** investigated the motives of bank executives for M & A transactions and results for shareholders. In the course of the work, the authors concluded that one of the most common motives is management's ambitions, which are not directly related to shareholders' profit. Transactions are generally beneficial to shareholders only when, as a result of the transaction, the bank enters new growing markets (food or geographic) or if significant economies of scale are projected.

**Joash and Njangiru (2015)** investigated the impact of bank mergers and acquisitions on financial results in Kenya based on a survey of banks. The authors formulated 2 research questions: 1. What effect mergers and acquisitions have on the company's shareholder value in connection with financial results 2. How mergers and acquisitions affect the profitability of companies. Joash and Njangiru identify several groups of users who will benefit from the study of the work: investors, bank management, academic researchers and students studying mergers and acquisitions. The survey covers all 14 banks that participated in mergers and acquisitions, starting in 2000, based on management surveys. Joash and Njangiru identified the main motives for mergers and acquisitions in banks in Kenya - increasing profits and increasing market share. To analyze the data, Joash and Njangiru constructed the following regression model:  $ROE = a + b_1SV + b_2Pr + b_3Sy + b_4OE + e$ , where ROE = return on Equity, SV = shareholder's value, Pr = profit, Sy = synergy from the transaction, OE = increase in operational efficiency, a = constant, b<sub>1</sub>, b<sub>2</sub>, b<sub>3</sub> b<sub>4</sub> = coefficients of the corresponding variables.

As a result of data analysis using the SPSS program, the R-value was obtained in 0.7, which corresponds to a high degree of correlation - thus, the authors conclude that there is a correlation between independent variables (transaction synergies, shareholder value, etc.) and the dependent variable (ROE).

**Dilshad (2013)** examines the profitability analysis of banks' mergers and acquisitions using the EventStudy approach. Based on the analysis of transactions in Europe, the author comes to the conclusion that there is a positive and statistically significant profit for shareholders in the short term after mergers and acquisitions, as well as profit for shareholders of the absorbed banks on the day of the announcement of the transaction. Dilshad gives a review of the literature, which divides into several parts:

1. Motives of M & A deals. The author claims that in the academic literature there are 2 basic approaches to the analysis of the motives of M & A: neoclassical theories and behavioral theories.

2. *Neoclassical theories*. The main assumption of neoclassical theories is that management participates in M & A only in cases where both the shareholders of the buyer and seller receive a profit from the transaction.

3. *Behavioral theories*. These theories can be divided into agency motives and motives of pride. The essence of agency costs lies in the fact that in some cases shareholders has insufficient number of shares to have a motivation to control the activities of management, which, in turn, does not always seek to maximize the profit of shareholders.

4. *Risks*. Dilshad identifies several risk categories related to mergers and acquisitions: operational risk (difficulties in combining IT systems and differences in corporate culture), reputation risk (the problems of an absorbed bank can degenerate the reputation of a buyer bank) and strategic risk (revaluation by a management bank- buyer of the need for a transaction and the quality of the bank being purchased). Increased operational risks are typical for transactions between banks located in different countries - due to cultural differences, exchange rate risks, etc.

The author also identifies several reasons in the academic literature for which M & A deals in the banking sector are unsuccessful: Incomplete strategy, setting goals and planning a deal , cultural differences, lack of experience and knowledge, excessive optimism, negative change in the external environment.

**Fadzlan (2004)** studied the impact of M & A deals on the effectiveness of banks in Malaysia. The author concludes that mergers and acquisitions have a positive effect on the efficiency of banks, especially small and medium-sized banks, which benefit most from economies of scale. As a research method, the Analysis of the operational environment (Data Envelopment Analysis - DEA) is used. DEA is a nonparametric methodology for linear programming on the analysis of efficiency coefficients. In this model, 3 input and 2 output variables were used. Introductory variables - staff costs, capital and deposits, output variables- the volume of loans and securities (Investment and dealing securities). Calculations were made in the DEAP program.

**Kemal (2011)** examined the financial results of RoyalBank of Scotland in Pakistan after the purchase of ABN Amro by analyzing the financial ratios. To analyze the impact of M&A transactions on the profitability of banks, the author uses the coefficients of profit, liquidity and market value. The null hypothesis is that the profitability of RoyalBankofScotland improved after the merger, an alternative hypothesis is that profitability has not improved. The audited financial statements of the banks were used as data sources: Balance Sheet, Profit and Loss Statement and Cash Flow Statement for 2006-2009.

Kemal concludes that most of the indicators deteriorated after the deal, with the exception of debt-equity ratios, which improved. As a result of several years of losses, Royal Bank of Scotland sold its subsidiary in Pakistan to another bank.

**Altunbas and Ibanez (2004)** analyzed how similarities between buyer banks and sellers affect the financial result after the M&A transaction. The authors introduce such a variable as the "Similarity Index" between different banks in order to assess the impact of similarity between banks on the success of the transaction. As a dependent variable, the difference between the ROE is used after 2 years after the transaction and ROE banks 2 years before the transaction weighted by the volume of assets. A number of factors are used as independent variables. As a data source, the basis of M & A transactions in the European Union, which took place between 1992 and 2001 (a total of 262 transactions, including 207 domestic and 55 cross-border transactions) is used. For each variable, the descriptive statistics-the mode, the median and the standard deviation for the

buyers and sellers in the domestic and cross-border transactions, are calculated, respectively. The main analysis results are: Banks-buyers on average 7 times larger in assets than the seller banks, buyers are more cost-effective, especially in domestic transactions, sellers are characterized by higher loan and non-interest income ratios to total assets

**Alger (2015)** analyzed mergers and acquisitions in the banking sector in the Philippines between 2006 and 2010. The methodology of the study consists of several stages. At the first stage, the expected changes in the bank's profit index are calculated based on a historical analysis of changes in the average level of profit for the market and other variables (such as macroeconomic indicators and regulation). After that, the anomalous ROE is calculated - the difference between the expected ROE and the actual values. As a result of the analysis, the following conclusions were formulated: ROA banks in the Philippines declined over the period under review, the fall of the ROA is most likely due to external factors.

**Marembo (2012)** analyzed the impact of M & A transactions on financial results of commercial banks in Kenya. As part of the work, the author studied 27 M & A transactions in Kenya between 1994 and 2010. Three sources of financial statements of banks were used as sources of data, analyzed indicators - EPS (earnings per share), ROE, ROA and CAR (capital adequacy ratio). As a result of the research, the authors come to the conclusion that ROA and ROE banks improve after the transactions. In summing up the author comes to the conclusion that the results of mergers and acquisitions in the banking sector of Kenya lead to mixed results. Many banks have improved ROE, ROA and CAR, but some banks have remained at the same level or even deteriorated. Thus, other factors can have a significant impact on the financial results of banks after M&A, in particular the professionalism and experience of top management.

**Badreldin and Kalkhoefer (2009)** examined the impact of mergers and acquisitions on the results of banks in Egypt. The authors analyzed how the ROE Egyptian banks, which participated in mergers and acquisitions in 2002-2007, changed. The authors selected 10 M & A transactions in the banking sector of Egypt between 2004 and 2007. Of the analyzed transactions, 4 were conducted domestically, while 6 were cross-border transactions. Due to the lack of information, the main focus of the study is on the analysis of banks - buyers, not sellers. The financial results of banks are estimated using ROE as a dependent variable, the average ROE is calculated for two years prior to the transaction and for two years after the transaction. ROE is divided into components: ER (the share of capital in assets) and ROA, which is divided into gross margin and reserves for possible losses. As a result of the analysis, the authors come to the following conclusions. ROE do taxes increased from 12.6 to 14.5% after M & A or 14%. At the same time, gross income and operating margin did not change significantly, so a decrease in the share of capital in assets was the main reason for the increase in ROE.

## **Methodology**

Methodology of this research is based on quantitative data. To measure impact of M&A on the profitability of banks I used method of analyzing financial statements. To answer to my research question these goals should be achieved: to consider the main theoretical approaches to the analysis of transactions on mergers and acquisitions of banks, in particular the impact of M&A on the profitability of banks and determine the methodology for assessing the impact of M & A transactions on the profitability of banks and apply it on a real sample of transactions. Subject of the study are: mergers and acquisitions deals of KZ banks. As sampling I will use cases of M&A deals during the period from 2006 to 2019. It is a lot of banks which were merged during the new wave of M&A activity, however it is not possible to analyze the result of these cases, due to

impossibility of data after the deal. Data collection: consolidated financial reports from the official websites of the banks, Kazakhstan stock exchange (KASE).

In this research, three main hypotheses are formulated:

H1. Mergers and acquisitions increase the profitability of banks

H2. Banks-buyers are on the average more large and profitable in comparison with the banks-sellers

H3. The similarity of the buyer and the target banks affects the profitability of banks after M&A

These hypotheses will be tested in subsequent parts of the study using a sample of financial reporting data from banks participating in M&A transactions. The first hypothesis is the easiest to test - for it you just need to compare the banks-buyers with the seller banks for a number of indicators. The second hypothesis is the most difficult to evaluate - because to obtain reliable results it is desirable to separate the influence of M & A from other parameters influencing profitability. To test the third hypothesis, it is necessary to build a multifactor regression model that will evaluate the impact of each of the independent variables (similarity of banks in terms of risk level, etc.).

### **Hypothesis number 1 "Mergers and acquisitions increase the profitability of banks"**

The profitability of banks is measured by ROE (return on capital) as the main indicator, and ROA (return on assets) is also considered for profitability estimation.

The key problem to confirm or reject this hypothesis is to separate the influence of participation in M & A from other factors. For example, if the ROE of banks participating in M & A grows in comparison with the average ROE of the deal, it cannot be unequivocally said that the growth of ROE is a consequence of M & A. Among other factors that can significantly affect financial results: quality of management work, increased competition, the state of the economy and regulation. The basic way to solve the problem is separating the influence of M & A from other factors is to compare the results with the dynamics of the industry indicators of comparable banks, which did not participate in mergers and acquisitions.

### **Hypothesis number 2 "Banks-buyers are on average more large and profitable compared with the banks-sellers"**

In order to confirm or reject this hypothesis, it is necessary to compare the banks-buyers with the sellers by asset level and return on capital. Accordingly, if the banks - buyers have better indicators, then the hypothesis is confirmed, if not - it is rejected. It is also possible that the hypothesis will be partially confirmed - for example, if the banks - buyers are on average larger, but less profitable.

### **Hypothesis 3 "Buyers' similarity and goals affect the profitability of banks after M & A"**

The similarity between banks can be estimated on the basis of analysis of the structure of the balance by several indicators:

- Operating expenses / Net income
- Capital adequacy = Capital / Assets
- Net loan debt / Assets

- Level of credit risk (Change in provisions for possible losses / Interest income)
- Loans / Deposits
- Difference in buyer and seller ROE

The model will evaluate the impact of these independent variables on the dependent variable - the change in the ROE of the merged bank. The hypothesis will be confirmed if the similarity between banks on the above independent variables will have a significant impact on the change in the yield of the merged bank. Also, the hypothesis can be partially confirmed (if some variables have a significant positive impact and others do not) or rejected (unless the variables have a significant impact).

A significant limitation of the study is the fact that financial reporting does not always reflect the real state of the financial condition of banks in Kazakhstan, because in some cases, bank management withdrew depositors' funds into controlled accounts. Therefore, there is always a risk that the improvement in financial performance it is not the result of manipulations with reporting

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## **Influence of audit firm rotation on audit quality**

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After Enron scandal and following financial crisis in 2008, auditing profession was highly challenged in the past decades, which resulted in many requirements and regulations introduced by governments in many countries. The debates started after Enron fooled regulators with off-books accounting practice in 2002 which vitally affected its audit firm, Arthur Anderson. This was the starting point for losing the trust to audit firms. Soon others scandals with WorldCom, Parmalat, and Satyam followed. Those scandals show that the joint-provision of auditing and non-audit services (NAS) as well as the long-term auditor-client relationship adversely impact the auditor independence thus decreasing the auditors' ability to make an unbiased evaluation which in turn leads to a reduced audit quality. Hence, for several decades the topic of mandatory auditor rotation has been heavily discussed in order to solve these problems. Mandatory audit firm rotation (hereafter MAFR) is the mean to increase the audit quality and eliminate the familiarity bias and as the result increase the public trust toward audit firms.

After the crisis, many regulations concluded that the audit has not provide true and clear picture of financial position of many institutions and organizations. The authorities put the audit firms' independency under the question. (European Audit Committee Leadership Network report, 2014). Especially after the financial crisis, it became clear that the role of audit firms had decreased, as after issuing the non-modified opinion, many companies became bankrupts. After decades of research, auditing profession continue to wrestle with two longstanding concerns about perceived threats to auditor independence and audit quality:

1. Bias – becoming personally friendly with, or increasingly trusting of client management;

2. Economic bonding – becoming financially dependent. The situation occurs when fees received from the audit of the following Client comprise the significant share from the total company's revenue from audit services.(T. B.Bell, Monika Causholli and R.Knechel, 2015)

After new audit regulations were approved by European Union in December 2013, requirements on MAFR became more important than ever. According to the requirements Public interest companies have to rotate their audit firms every 10 years (Ken Tysiac, 2014). After the adoption of Sarbanes-Oxley Act (SOX) the partner rotation was introduced in US, which requires audit partners to rotate every 5 years. The main difference is that the key audit partner is required to rotate off after a given period of time, which does not mean the audit firm rotation. Many countries had implemented the audit partner firm rotation as the mean of enhancing the audit firm independency and eliminating the bias. The following countries had implemented the audit partner rotation: United States, China, Brazil, Korea, Australia, Switzerland and India. In European countries key audit partner is required to rotate off every seven years.

Audit firms operating in Kazakhstan complies with the audit partner rotation requirements of the code of the IESBA, as well as the U.S. Securities and Exchange Commission (SEC). Audit firms supports audit partner rotation because it provides a fresh perspective and promotes independence from company management, while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls and independent audit oversight, helps strengthen independence and objectivity, and are important safeguards of audit quality (EY Transparency report, 2017, 14 page).

It is argued that the longer tenure can cause the treat on auditor's independency and increase the familiarity bias between audit firm and the client. Already 35 years ago US regulators were thinking about setting up limitations on audit firm tenure because of raised concerns that a long-term relationship between auditor and client could cause a close identification of interests of both

parties thereby harming auditors' independent actions. In order to improve the credibility of financial information United States Government had introduced number of requirements and regulations on Financial Reporting which impacted both, audit and capital markets. The regulations were introduced within the Sarbans-Oxley Act in 2002 (SOX) Section 203 (General Accounting Office, 2003; Harris, 2012). Regulators and policy makers, particularly in the United States and the European Union (EU), announced new potential remedies for improving financial reporting quality, such as MAFR, restrictions on more non-audit services, or mandatory tendering for appointing auditors (PCAOB, 2011; European Commission, 2010). The most sound and clear advantageous are overcoming the following treats:

1. Familiarity treat, when audit quality decreases with the pass of time as client-auditor relationships start to erase;
2. Interpersonal relationship treat occurs when auditors put overconfidence on the information provided by the Client which cause anchoring of audit procedures. At that point of time the professional skepticism start to shrink and independence can be threatened.

SOX required the PCAOB to conduct the independent study on the effect of audit firms' rotation, even though there is no requirements in place on audit firms' rotation. The performed study supported the theory that costs of audit firm's rotations outweigh the existing benefits of audit firms' rotation. The main benefits which were under consideration are fresh look at the company by new audit firm, decrease of familiarity and more detailed, complex audit procedures. The costs include the loss of experience of existing audit firms, the additional time required to new audit firm to know the client, the contract costs with new audit firm and decreased operating effectiveness of clients' personnel due to constant interruption by new auditors. The learning curve for new audit firms is stated to be from 2-4 years, within which extra audit costs would be incurred by the client. (Kendall O. Bowlin, Jessen L. Hobson, M. David Piercey, 2012). Following the research results the PCAOB refused the idea of mandatory auditor rotation in 2014.

In general, Big-4 firms support the free market idea and are against the introduction of MAFR. To gauge the auditors' perception of MAFR the survey was conducted in 2011 which involved 370 practicing audit partners from 14 audit firms. The average age of respondents was 47 years with 11 years of experience in the role of audit partner. Approximately 25% worked as audit partners in Big-4 companies and 73% were employed by eight largest U.S. audit firms.

Kazakhstani market is unique in its nature. The nature resource sector is the dominant sector in Kazakhstan. Kazakhstan is well-known country due to major oil and gas fields located in the territory of the country. Country attracts huge amount of overseas investors who operate the mine fields. Within couple of years the banking and insurance sectors incurred significant changes with major banks being merged and new governmental mortgage initiatives put in place. Major companies in Kazakhstan, which are listed on stock exchanges or PIE (public interest companies) are required to follow IFRS reporting requirements. Accounting practice in Kazakhstan is governed by the Law on Accounting and Financial reporting issued in 1995. Starting from 1 January 2003 IFRS accounting standards are required to be used for preparation of financial statements by financial institutions and from 1 January 2006 by all other reporting entities. Listed companies were required to implement IFRS reporting standards from 2005. Before the following amendments were made to the Law all entities followed the KAS (Kazakh Accounting Standards) requirements on reporting. In 28 February 2007 further amendments were introduced into the Law including the three-tier reporting structure requirement. Under the following structure micro enterprises can apply simplified tax-based reporting (but not limited in applying IFRS reporting framework), SMEs or small and medium enterprises are allowed to report either under KAS or IFRS requirements, and listed companies including public interest companies are required to use IFRS as a framework for financial reporting. In 1998 the Law on audit Activity was issued by the Ministry of Finance of Kazakhstan. The Law specifies the services which can be provided by audit organizations and defines the definition of "restricted services". It also contains the requirements on auditors as being a member of professional audit body in order to be authorized to conduct the audit. Law also determines the professional

responsibilities of the auditors and sets the requirements over continuous professional development (CPD) and initial professional development (IPD) applicable for all audit firm members (IFAC, 2017).

Currently there is no mandatory audit firm rotation required by National Reporting Standards in Kazakhstan. Big 4 companies operating in Kazakhstan and other major audit firms apply audit partner rotation when perform audits of public interest entities. But regulatory environment in Kazakhstan is becoming stricter with new regulations introduced into auditing profession. The study is aimed to investigate the impact of the Mandatory audit firm rotation on audit and financial reporting quality using data from Kazakhstani markets. The following two hypothesis are tested within the study:

1. ***H1: Audit quality changes with audit firm rotation.***

2. ***H2: Audit quality increases when the incumbent firm is a non-Big 4 audit firm in a rotation between a Big 4 and a non-Big 4 audit firm.***

The study also considered the agency theory and its application to Kazakhstani market within the context of mandatory audit rotation study. The results of the study would be of interest to the regulators and professional accounting bodies in Kazakhstan. The findings are also would be relevant for capital providers, investors and other stakeholders. It can assist many companies and Audit committees in deciding whether their current audit firm have to be rotated or not. Finally, the consideration of agency theory within the following study would provide additional supportive evidence toward influence of mandatory audit rotation requirement.

The multiple-regression models were used in the study to analyze the statistical relationship between audit quality and audit firm rotations. The study used abnormal accruals to measure the audit quality alongside with accrual earnings management. Depending on managers' objectives, earnings can be managed both upwards and downwards and small absolute discretionary accruals can be perceived as an indicator for high audit quality. By extension, increasing or decreasing earnings management practices in relation to an audit firm rotation serves as an indication of how

successful the auditor has been in ensuring audit quality. Discretionary accruals is therefore used as a proxy for audit quality, which popularity is highlighted by its frequent use in previous literature (Johnson et al., 2002; Myers et al., 2003; Carey and Simnett, 2006; Chen et al., 2008).

The sample of the study consists of non-financial and financial companies within Kazakhstani market listed on KASE. The study covers the period of 8 years from 2010 to 2018. The companies with no data on proxies used and no publicly available information were excluded from preliminary sample. Sample includes both, PIE and listed companies.

The results indicate that audit firm rotations do not affect audit quality or perceived audit quality. Some evidence is found indicating that audit firm rotations may have an effect on actual and perceived audit quality in instances where the incumbent audit firm is a non-Big 4 firm. However, these results are inconclusive, and it remains unclear whether this effect is caused by the rotation or Big 4 audit firms generally being associated with higher audit quality. At the same time previous research also argue that there are positive effects of audit firm rotations on audit quality, where a new audit firm would provide a fresh look on the firms positions (Carey and Simnet, 2006; Chi et al., 2009). However, no such evidence is found within this study. An opening for future research can be to consider other proxies to determine whether the findings in this paper still remain significant. For instance, going concern opinions could be used as proxy for audit quality, which would contain less noise, however such a study is not feasible to conduct on the Kazakh market due to the low frequency of going concern opinions.

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# OWNERSHIP AS A QUALITATIVE FACTOR AFFECTING THE BUSINESS MODEL OF BANKING INDUSTRY IN KAZAKHSTAN.

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## Abstract

Given the unsteady nature of the banking industry in Kazakhstani market and specific approach of ownership structure formation, this work evaluates the effect of ownership structure on the financial stability and profitability measures utilizing the accounting standards such as net interest margin, return on assets, return on equity and Z-score in a panel data least square regressions for the period of 2008-2017. Correlation between private ownership and performance and risk is positive. However, specific ownership structure, concentrated control of political and economic power creates systemic overall industry risk. Therefore, findings suggest that inclusion of macroeconomic variables as devaluation and financial crisis into the model severely weakens the profitability and performance indicators. The regressions without inclusion of generalizability effects suggest safe and sound industry performance. The work indicates weakness of the banking performance against external shocks and signifies high necessity of regulation of the industry.

## 1. Introduction

Before the start of the discussion of how the industry of banks operate, we need to understand what are the main contributing factors that play crucial role in making this industry flourish and perform in a way that will make the profits grow. Therefore, we need to understand and take into account not only the accounting or measurable factors, but the categorically impacting factors as well. This will take into account the whole picture of the industry and will truly identify the performance level of the industry. Moreover, we can not take into account previous findings of the markets that are in a developing state of economy, because of the huge difference to the transitional economies. The models they have developed won't do for the specifics of the economies in transition. However, we definitely need the consideration of the international norms of the regulation and supervision alike of Basel III norms. However, again we need to make the assumption that these norms were largely developed for the developing of developed market economies and our study concern is related towards the transition economy of Kazakhstan that is completely different case. Adjustments need to be done with respect towards the specifics of the Kazakhstani market. Therefore, the necessity to develop the model of our own is quite crucial and with the inclusion of trials of the best options that the developed markets already created. The inclusion of the parameters of the developing world economies might not truly represent the actual state of Kazakhstani market economy. Hence, the efficiency level evaluation won't truly represent the actual findings. Simply stating the application of the model developed for the other economies, even highly similar

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economies, can be representing the biased results. Specifics of the country under examination must be taken into account. We need to understand that the banking industry of Kazakhstan is highly linked with the interest of their final beneficiaries. Studying the risk and performance of the Kazakhstani banking industry evaluation, we need to point a serious attention towards the holders of this business, the shareholders. The inclusion of this factor plays crucial role in the study of the industry efficiency. This is highly linked with the heritage of the planned economy structure. We need to consider as well both assets and liability parts, to see the full picture, because the banks play the role of both risk and return factor. We check for the way Kazakhstan banks raise the funds, because this will help us understand the sides of both bank specific and systematic risks. On the other hand, this will help us evaluate the level of the financial intermediary in Kazakhstani banking industry. We can see that mostly the equity holders are playing the source of the funding in transitional economies. This is as well the heritage of the planned economy. The allocation of resources is as well mostly attributing to the way central government needs it. Therefore, the performance of the banking managers can not be truly evaluated, because of the need of their performance ends with the plan of the central apparatus. They simply play the role of the transmission and implementation rather than the ruler of the business needs. The shareholders in the face of state as the final beneficiary play the crucial role in Kazakhstani banking industry business. The state shareholder is the powerful player that is responsible for every part of the business. Our hypothesis is to prove this reasoning for the Kazakhstani market. This study evaluates the contribution of the private ownership factor to the development of the banking system performance in Kazakhstan. We argue that the business of banking in this transitional economy only attributes to the state ownership blurred in the hands of so called private ownership. This, we state that is not the case for the beginning of the transition nor in the recent years of the development. Planned economy changed into free market economy with old rules still at hand. Therefore, we consider the banks in Kazakhstan to be only the levers of the implementation state plans and nothing more than that. Hence, we state that the implementation of the norms alike of Basel III<sup>7</sup> and give away of the business to the so called private ownership won't do for the safe transition to the market economy.

## 2. Background

We are mainly to discuss the effect of the post-soviet union heritage on the newly born transitional economy of Kazakhstan with the factor of ownership as the core point. The position of the financial market of the planned economy significantly varies with the one of the free market economy. In the planned economy, the resource allocation is the privilege of the central apparatus. Despite the fact that the changes take place, still we observe a lot in common with those old days when the distribution of resources were planned according to the need of the state but the market. The financial crisis of 2008 and the collapse of the Russian ruble market of 1998 and the collapse of the Asian market of 1997 have all played significant role in the change of the world state and definitely affecting the small transitional economies such as Kazakhstan. The change in the world macroeconomic state caused the local economies to adjust for the sake of survival and most of them experienced the drastic local currency devaluations. In Kazakhstan only, looking at the banking industry over the thirty years, almost ten times the number of financial institutions decreased in number. This trend made the lemon institutions go out of the market and helped those which were having good business models survive and develop in line with the new economic requirements.

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<sup>7</sup>Basel Committee on Banking Supervision, (October 2014).

Still, the overall economy required new regulations, reforms and norms to make the market live in a proper way. These new changes made other institutions obliged to cooperate for the sake of survival. Many of the banks were simply not able to satisfy new requirements and therefore collapsed. Our interest is to study the effect of ownership on the overall banking industry performance of the Kazakhstani market in times of financial crisis.

### 3. Literature review, methodology and overall findings

The ownership structure of the financial institutions had been studied previously in many works but for the developed markets mostly. This section covers the observed literature and overall findings of these works. The study is based on the cross methodology application of works of Dinc (2005), Allen (2013), Dietrich et al (2014) and Micco (2006). The evaluation of the performance dependence measures of return on assets, on equity and net interest margin are estimated against macro, country and bank specific variables with stepwise inclusion of factors like devaluation, ownership and crisis categorical variables all together and separately. The following way to regress the dependent variables might help check a single factor effect and the overall dependence of bank performance on both endogenous and exogenous to the economy shocks. The equation is then constructed in the next format:

$$\mathbf{Performance}_{it} = \mathbf{C}_{it} + \mathbf{Ownership}_{it} + \mathbf{Crisis}_{it} + \mathbf{X}_{it} + \mathbf{e}_{it} \quad (\text{equation 1})$$

We apply common to the area approach in examination of banking industry, we take all the variables for the specification of time  $t$ , and bank  $i$ .  $C$  commonly states for the intercept and we apply error term as  $e$ .  $X$  states for the variables specific to the bank, macro and country level.

### 4. Findings

We utilize the methodology as the combination of works of Dinc (2005), Allen (2013), Dietrich et al (2014) and Micco (2006). To have the robust findings the regression models are applied to different performance evaluation measures such as Return on Equity, Return on Assets and Net Interest Margin. The model takes into account industry specific, macroeconomic, bank specific and other accounting control variables to make the sample as close as it is possible to the true economic environment. We apply dummy variable to incorporate the categorical variables into the model. Size plays important role in the way banks behave towards the risk perception. The bigger the size the less responsible the financial institution is. The heritage of the planned economy, when big banks are always in a privilege of being on a safe side in all times keeps to be the case in the transitional economy of Kazakhstan. This negatively affects the diversification of the market as it is. Because these type of big banks prefer to keep old standards and moreover they are very difficult to the idea of change. Our main findings in regards towards the Ownership factor state the same results. We found no strong evidence of the factor of ownership being strong factor affecting the better financial position of the industry as a whole. Moreover, the shocks of the macroeconomic level worsen the position of this factor even more when they take place. We run the regressions separate from the effect of Crisis, and found positive impact. But the inclusion of crisis flattens all the findings and reverses them into negative state, additionally pointing to the fact of unstable and vulnerable condition of the overall financial stability of the banking industry of Kazakhstan. The sample with the inclusion of the factor of devaluation negatively affects the profitability of the industry. However, this is not the merit of the currency devaluation, but mostly the negative effect is attributed to the fact that crisis has a strong effect. We consider this fact as the effect of correlation of these two factors.

### 5. Discussion

The variables with coefficients higher than the one are explained as the high correlation coefficients with other variables. Joreskog (1999) has been stating that this type of possibility takes place when the variables are explaining each other. Therefore, we take this point as one assumption in this study. This study findings are based on the regressions for the pane data model of Polled regression methodology. To diminish the endogenous variables problem between the variables, we have applied the lags for the independent control variables.

## 6. Conclusion

Based on the examination of the data starting form 2008 and 2017 years, taking into account the macroeconomic shocks of local and external characters as devaluation and global financial crisis, we evaluate the current economic and financial position of the banking industry in Kazakhstan. The profitability measures we apply to evaluate performance recommend that economic environment is unstable as the macroeconomic challenges come into the scene. However, both of the measures, Return on Assets and Net Interest Margin indicate that crisis motivates the industry to perform in a sustainable way that shows weak players and eventually erasing these institutions from the existence. Moreover, most of the financial institutions in a favorable economic state receive governmental support in terms of financing. This only helps to last the eventual insolvency of these banks. However, in general it doesn't help the overall industry performance. Overall industry financial stability worsens with the crisis at place and positive symptoms that are diminishing the costs and increasing the revenues and eventually increasing the score of the Net Interest Margin can only be attributed to the facts that state supports these institutions in a form like it is still planned economy condition. Therefore, we can not attribute these positive moments to the good and strong business model but only to the Keynesian Hand that will not last long enough to make the industry perform in a sustainable manner. Therefore, we conclude that these newly grown up financial institutions, despite the fact that they are recognized as the institutions with almost hundred percent private ownership structure, still perceive governmental support in terms of financing and fund raising keeping the old ties of planned economy at work. This behavior diminishes the possible way of free market development, because the financing doesn't go for free, and government requires some return in terms of allocation of funds to the state privileged companies neglecting the main rules of free market economy. Therefore, this mode of private ownership can not be fully recognized as private ownership, because the target is not the business, but the satisfaction of small group of interest bearers, neglecting the market interests themselves.

Regression results suggest that the overall performance positively affected by all the control variables excluding the crisis factor from the examination. Inclusion of macroeconomic shock clearers the blurred lines of positive state of the industry and, therefore, the findings became negative in almost all factors affecting the financial stability of banking industry. Other findings suggest that the size of the financial institution negatively affects its performance. The bigger the bank, the less responsible is its performance and attitude towards risk. Big banks in a planned economy tend to behave in a manner, when they consider themselves too big to fail, and, therefore, they behave in risky manner. This affects the financial stability in a long term, because the allocation of the state support eventually goes to help these banks from becoming insolvent, rather than allocating these funds to some social projects. Other findings suggest that Kazakhstani banks tend to rely more on the traditional way of income generation. However, non-traditional way of income generation over these two decades significantly increased its proportion. Still, for the complete picture of the ownership effect evaluation of the Kazakhstani banking industry evaluation, the regulation has to be taken into examination.

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## **Impact of Macroeconomic Factors on Bank Profitability: Case of Kazakhstan**

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### **Introduction and objective**

Commercial banks play very important role in the economic resource allocation of countries (Ongore, 2013). Their contribution to economic growth of the country is in the form of making resources available for investors to borrow (Otuori, 2013) Commercial banks appear extremely important in emerging markets due to the lack of developed and actively working equity market. In the absence of equity capital resources, companies' only source of funds is provided through banks loans. This kind of situation is very common to former Soviet Union countries. Kazakhstan is among this kind of countries and its banking sector is investigated by this paper. This study is about the impact of macroeconomic factors on commercial bank profitability in Kazakhstan.

The performance of commercial banks can be influenced by bank specific (internal) and macroeconomic (external) variables (Ongore, 2013). The internal factors are bank's own individual bank characteristics which influence the bank's performance. These factors are mainly affected by the internal management and board's decisions and they are controllable. The external factors are country-wide factors that affect the profitability of banks and they are beyond the control of company managers. It is very important for a bank to know all the determinants of the profitability in order to survive in the long run. This will enable the bank to take initiatives and different measures to increase its profitability by managing the dominant determinants (Podder, 2012).

The objective of the study is to determine and analyze all of the determinants of bank profitability in the banking sector of Kazakhstan. The paper will cover both bank specific as well as external determinants and their role in the profitability variables of the banks of Kazakhstan. The practical importance of the study is to help academicians and businesses find out the key drivers of the profitability of banks in Kazakhstan. Taking into account the importance of banking sector to the economy of the country we think that the results of this study analysis are very important.

## State-of the-art literature review

Return on assets (ROA) is mostly used in the literature as performance ratios (Iqbal et al. 2005). This ratio as well as net interest margin (NIM) are used as proxies for the measurement of performance in this research. Many of the researchers used ROA because the ratio of ROA has proved to be the main indicator for the measurement of performance of banks (Golin, 2001). Also Bashir (2000) came to conclusion that ROA is the perfect efficiency indicator of banking sector. Ross (2005) accepted ROA as a common measure for the performance of management

Bank's management deals with such macroeconomic variables as GDP growth, interest rate, inflation, exchange rate and money supply. These variables are out of the control of the bank's management (Khrawish, 2011). The relationship between bank profitability and bank resilience for macroeconomic contraction in Australia was studied by Gizesky (2001). Likewise, Athanasoglu and Dalis (2005) studied the influence of fluctuations in macroeconomic variables on banking performance in Greece. According to their results, inflation has significant positive impact on bank's utilities, which serve as proxies for return related ratios. As to macroeconomic management, it was concluded in the study of Clair (2004) that on average two-thirds of bank's performance in Singapore is closely connected to the changes of macroeconomic variables.

In addition to macroeconomic factors, some authors investigated the influence on bank specific factors on the profitability of banks. For example, insignificant relation between asset size and profitability were detected by such studies as Emery, (1971) and Smirlock (1985), Gul et al. (2011), Javaid et al. (2011) Kutsienyo, (2011), Kosmidov, (2007), Haron (2004), Bashir (2003), Naceur (2003) considered capital adequacy ratio and found that banks become less risky as capital increase which serves as a guarantee of safety for banks.

## Research methodology and data collection tool

Quarterly data of the banks of Kazakhstan was used in this study. The data was fully supported through Bloomberg terminal system of data. The multiple regression model was used in order to test the significance of variables.

The models of bank profitability are described as follow:

$$\text{Bank Profitability Variable (ROA and NIM)} = \beta_0 + \beta_1(\text{LNTA})_t + \beta_2(\text{PL})_t + \beta_4(\text{LA})_t + \beta_5(\text{TOPBT})_t + \beta_6(\text{ETA})_t + \beta_7(\text{INF})_t + \beta_8(\text{GDP})_t + \epsilon_t$$

We included bank-specific as well as macroeconomic variables in our empirical analysis. Bank-specific variables are LNTA (log of total assets), PL (loan loss provisions/total loans), LA (loans/assets), TOPBT (tax/operating profit before tax), ETA (shareholder's equity/total assets).

The inflation in the form of quarterly data for CPI and also quarterly data for GDP both represent the macroeconomic independent variables.

As some of the variables were exchanged with their first differences, our model was turned into the following form:

$$\text{Bank Profitability Variable (ROA and NIM)} = \beta_0 + \beta_1(dLNTA)_t + \beta_2(PL)_t + \beta_4(\text{LogLA})_t + \beta_5(\text{TOPBT})_t + \beta_6(\text{ETA})_t + \beta_7(d\text{LogCPI})_t + \beta_8(d\text{LogGDP})_t + \epsilon_t$$

Here is the correlation coefficient to show the relationship between the two dependent variables and independent variables of the model. The correlation between ROA and the respective independent variables looks as follows:

```
. correlate ROA PL LogLA TOPBT ETA dLogGDP dLogCPI dLNTA
(obs=411)
```

	ROA	PL	LogLA	TOPBT	ETA	dLogGDP	dLogCPI	dLNTA
ROA	1.0000							
PL	-0.1700	1.0000						
LogLA	-0.0288	0.1338	1.0000					
TOPBT	-0.0025	-0.0076	-0.0517	1.0000				
ETA	0.0251	-0.0061	-0.3148	-0.0047	1.0000			
dLogGDP	-0.0436	0.0526	0.1832	0.0662	-0.0666	1.0000		
dLogCPI	-0.0520	0.0026	0.0481	0.0562	-0.0180	0.0224	1.0000	
dLNTA	0.0578	-0.0381	0.1310	0.0120	-0.0750	0.4699	0.0355	1.0000

As we can see the ROA, dependent variable, has a negative correlation with almost all independent variables except ETA and first difference of LNTA.

Now, if we look at the correlation matrix of LogNIM we can observe the following:

```
. correlate LogNIM PL LogLA TOPBT ETA dLogGDP dLogCPI dLNTA
(obs=411)
```

	LogNIM	PL	LogLA	TOPBT	ETA	dLogGDP	dLogCPI	dLNTA
LogNIM	1.0000							
PL	-0.0031	1.0000						
LogLA	0.4238	0.1338	1.0000					
TOPBT	-0.0051	-0.0076	-0.0517	1.0000				
ETA	-0.3108	-0.0061	-0.3148	-0.0047	1.0000			
dLogGDP	0.0592	0.0526	0.1832	0.0662	-0.0666	1.0000		
dLogCPI	-0.0554	0.0026	0.0481	0.0562	-0.0180	0.0224	1.0000	
dLNTA	0.1557	-0.0381	0.1310	0.0120	-0.0750	0.4699	0.0355	1.0000

Again apart from GDP and asset sizes, all other variables have negative correlation with our dependent variable of NIM.

## Data analysis with critical thinking and discussion

We study empirically the determinants of bank profitability using quarterly data for 12 Kazakhstani banks over the period 2009-2019. The complementary measures of bank profitability, ROA and NIM, are used.

First we examined if the data collected is stationary. For this reason we took logarithmic values of the data and used them for the test of stationarity and further analysis. As a result of the test of stationarity through Augmented Dickey Fuller test the following variables were found non stationary: LNTA, LogGDP, LogCPI. In order to solve this issue we took the first differences of the above mentioned variables. First differences were used for the rest of the research after making sure that they are stationary.

We used ARDL model for regression and other analysis of our research and got the following regression results:

```
. reg ROA PL LogLA TOPBT ETA dLogGDP dLogCPI dLNTA
```

Source	SS	df	MS	Number of obs	=	411
Model	1011.67801	7	144.52543	F(7, 403)	=	2.37
Residual	24605.5423	403	61.0559362	Prob > F	=	0.0222
				R-squared	=	0.0395
				Adj R-squared	=	0.0228
Total	25617.2203	410	62.4810251	Root MSE	=	7.8138

ROA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
PL	-.4007564	.1215611	-3.30	0.001	-.6397294 - .1617834
LogLA	.0611869	.5164669	0.12	0.906	-.9541188 1.076493
TOPBT	.000062	.0008268	0.07	0.940	-.0015634 .0016873
ETA	.0099105	.0190379	0.52	0.603	-.0275155 .0473365
dLogGDP	-22.94446	16.97622	-1.35	0.177	-56.31747 10.42855
dLogCPI	-29.2663	27.00214	-1.08	0.279	-82.34894 23.81634
dLNTA	3.403005	2.09689	1.62	0.105	-.7192038 7.525214
_cons	.2226703	.9352088	0.24	0.812	-1.615827 2.061167

```
. reg LogNIM PL LogLA TOPBT ETA dLogGDP dLogCPI dLNTA
```

Source	SS	df	MS	Number of obs	=	411
Model	95.329365	7	13.6184807	F(7, 403)	=	17.90
Residual	306.547431	403	.760663601	Prob > F	=	0.0000
				R-squared	=	0.2372
				Adj R-squared	=	0.2240
Total	401.876796	410	.980187308	Root MSE	=	.87216

LogNIM	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
PL	-.0136637	.0135683	-1.01	0.315	-.0403373 .0130098
LogLA	.4551701	.0576468	7.90	0.000	.3418442 .568496
TOPBT	.0000447	.0000923	0.48	0.628	-.0001367 .0002261
ETA	-.0088294	.002125	-4.16	0.000	-.0130068 -.004652
dLogGDP	-3.057818	1.894844	-1.61	0.107	-6.782831 .6671951
dLogCPI	-5.568157	3.013912	-1.85	0.065	-11.49311 .3567953
dLNTA	.6208485	.2340497	2.65	0.008	.1607377 1.080959
_cons	3.047724	.1043857	29.20	0.000	2.842515 3.252932

As to the results of the analysis, confidence level with which we can reject the null hypothesis about the model in general is quite high for both dependent variables. R-squared value of almost 4% for ROA indicated that the model is unable to explain the changes in ROA through the model's independent variables. The model can explain the changes in NIM for about 24% which is considered normal. In terms of individual coefficients, the asset size which is represented by LogLA and the relation of total loan to total assets dLNTA both have strong positive relations while ETA have a negative relations with NIM.

Turing into the macroeconomic variable, even though inflation and GDP were showing negative coefficients for NIM but their confidence levels were not enough to mention these relations with NIM.

### **Summary, conclusion and recommendations**

This paper examined the determinants of profitability of twelve Kazakhstan banks on the basis of their quarterly data covering the period from 2009-2019. Bank-specific and macroeconomic variables were considered. Bank profitability was measured by two variables, ROA and NIM.

Some variables' data were found to be not stationary. They were exchanged with their values of first differences. As a result of our regression analysis bank specific factors were found more influential than macroeconomic factors. Our model variables acquired low levels of reliability to explain the changes in ROA. Concerning NIM, bank specific factors were main determinants of profitability. The relations of loans to total assets and asset size both have the strong positive coefficients while ETA have a negative relations with NIM. The macroeconomic factors did not show enough confidence levels to be able to explain the changes in profitability variables.

As a recommendation to future researches there is a need to continue investigating the profitability determinants in terms of finding other models with more explanatory power.

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# **Comparative Analysis of Profitability Determinants in Foreign and Local Commercial Banks of Kazakhstan**

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## **Introduction and objective**

Banking is one of the most sensitive enterprises in the world, and they play a very important role in the country's economy, and Kazakhstan is no exception. They influence and facilitate the integration of economic activities, such as resource mobilization, poverty eradication, production and distribution of public finances. The banking sector is represented by 28 banks, of which 14 banks with foreign participation, including 12 subsidiary banks. Assets and the loan portfolio as of 1 January 2019 assets of Kazakhstan banks amounted to 25, 241.0 bln. (nationalbank.kz, 2019). Basically, Kazakhstan's Banking Sector consists of Commercial Banks which include nationalized, foreign, and private banks, are regulated by the National Bank of Kazakhstan.

All these facts mentioned above are stating the importance of banking sector in the economy of Kazakhstan. The economic growth is impossible to imagine without the development of banking sector. The objective of this study is to examine the performance of domestic and foreign banks in Kazakhstan, namely, what determines the profitability of foreign versus local bank in the banking sector of Kazakhstan. The different structure and characteristics of foreign and domestic banks on one hand, and the different influences of external factors on these banks on the other hand could lead to the difference in the performance among these two groups.

The determination of proper drivers of profitability for commercial banks in Kazakhstan is the main objective of this study. Furthermore this study aims to compare the factors influencing the profitability of local banks with those of foreign banks. Through doing this comparative analysis it is aimed to find out the ways of improving banking technologies of local banks and to make the practical recommendations to local banks so that they could improve their services.

## **State-of the-art literature review**

As Kazakhstan can be considered developing country, it is important to know the literature devoted to the analysis of developing markets in terms of the factors impacting the profitability of commercial banks in these countries. Interestingly, fewer studies have examined banking sector

performance in developing countries. For example, the work of Thai domestic and foreign banks was studied by Chantapong from 1995 to 2000. This study helped determine that banks gradually increased profitability and that credit risks were reduced in difficult times of crisis. The outcome was that the average profitability of domestic banks is lower than the profitability of foreign banks. Despite all these factors, in the post-crisis time, it was still possible to narrow the gap between the profitability of domestic and foreign banks.

The activities of various Chinese banks have been studied for several years, starting from 1999 to 2006 by Fu and Heffernan(2010). The outcome is that traditional measures of profitability, namely the return on average assets (ROAA) and return on average equity (ROAE), work worse than economic added value and net interest margin (NIM). A few macroeconomic factors and financial ratios are significant with the anticipated signs.

Between 1980 and 2000, the influence of financial structures and macroeconomic conditions on the profitability of Tunisian banks was studied by Ben Nasser and Goaid (2008).It was suggested that at a time when size is poorly related to bank returns, financial institutions with relatively high capital and higher overhead rates show higher rates of profitability and NIM. During the study it was found that stock market progress positively affects the profitability of banks. Private banks are considered more profitable than state-owned. Empirical evidence supports this belief. The result is that the profitability of Tunisian banks is not affected by macroeconomic conditions.

### **Research methodology and data collection tool**

In this study, the performance of banks was measured by its return on assets (ROA) and net interest margin (NIM). The ROA, defined as net income divided by total assets, reflects how well a bank's management is in using the bank's real investment resources to generate profits and NIM is defined as interest income minus interest expenses, showing that how efficiently banks convert expenses into income to generate the profit. Multiple regression technique has been applied to analyze the internal determinants as well as the external determinants. This method helps to identify a common group of characteristics and allows us to find the impact of macroeconomic developments on profitability after controlling for bank-specific characteristics.

The models of bank profitability are described as follow:

$$\text{Bank Profitability Variable (ROA and NIM)} = \beta_0 + \beta_1(\text{LNTA})_t + \beta_2(\text{PL})_t + \beta_4(\text{LA})_t + \beta_5(\text{TOPBT})_t + \beta_6(\text{ETA})_t + \beta_7(\text{INF})_t + \beta_8(\text{GDP})_t + \epsilon_t$$

We included bank-specific as well as macroeconomic variables in our empirical analysis. Bank-specific variables are LNTA (log of total assets), PL (loan loss provisions/total loans), LA (loans/assets), TOPBT (tax/operating profit before tax), ETA (shareholder's equity/total assets). The inflation in the form of quarterly data for CPI and also quarterly data for GDP both represent the macroeconomic independent variables.

As some of the variables were exchanged with their first differences, our model was turned into the following form:

$$\text{Bank Profitability Variable (ROA and NIM)} = \beta_0 + \beta_1(dLNTA)_t + \beta_2(PL)_t + \beta_4(\text{LogLA})_t + \beta_5(\text{TOPBT})_t + \beta_6(\text{ETA})_t + \beta_7(d\text{LogCPI})_t + \beta_8(d\text{LogGDP})_t + \epsilon_t$$

Two data set was formed by separating Kazakhstani and foreign commercial banks. For both of data banks the above model was used.

H1: The profitability determinants of foreign banks are different from those of domestic banks. For determining factors of bank performance, we divided our estimated variables into internal and external factors.

The correlation matrixes for local banks variables with ROA were as follows:

```
. correlate ROA PL LogLA TOPBT ETA LogGDP LogCPI dLNTA
(obs=352)
```

	ROA	PL	LogLA	TOPBT	ETA	LogGDP	LogCPI	dLNTA
ROA	1.0000							
PL	-0.1694	1.0000						
LogLA	-0.0281	0.1245	1.0000					
TOPBT	-0.0009	-0.0279	-0.0926	1.0000				
ETA	0.0247	-0.0014	-0.3153	-0.0089	1.0000			
LogGDP	-0.0047	0.0897	0.3437	-0.0921	0.0483	1.0000		
LogCPI	-0.0263	0.0068	0.0756	0.0787	-0.0325	-0.1242	1.0000	
dLNTA	0.0956	-0.0591	0.1470	0.0162	0.0386	0.1696	0.0974	1.0000

And with NIM :

```
. correlate LogNIM PL LogLA TOPBT ETA LogGDP LogCPI dLNTA
(obs=352)
```

	LogNIM	PL	LogLA	TOPBT	ETA	LogGDP	LogCPI	dLNTA
LogNIM	1.0000							
PL	-0.0191	1.0000						
LogLA	0.3736	0.1245	1.0000					
TOPBT	-0.0108	-0.0279	-0.0926	1.0000				
ETA	-0.2910	-0.0014	-0.3153	-0.0089	1.0000			
LogGDP	0.3440	0.0897	0.3437	-0.0921	0.0483	1.0000		
LogCPI	-0.0949	0.0068	0.0756	0.0787	-0.0325	-0.1242	1.0000	
dLNTA	0.0831	-0.0591	0.1470	0.0162	0.0386	0.1696	0.0974	1.0000

In the same way we took correlation matrixes for the next data set which belonged to foreign banks.

```
. correlate ROA PL LogLA TOPBT ETA LogCPI dLogGDP
(obs=58)
```

	ROA	PL	LogLA	TOPBT	ETA	LogCPI	dLogGDP
ROA	1.0000						
PL	-0.3550	1.0000					
LogLA	-0.0698	0.5068	1.0000				
TOPBT	-0.1272	0.3150	0.0893	1.0000			
ETA	-0.2273	-0.2413	-0.4235	0.0264	1.0000		
LogCPI	-0.1529	0.0387	0.1313	0.0706	-0.0198	1.0000	
dLogGDP	-0.0196	0.1172	0.2573	0.1555	-0.2620	0.1426	1.0000

```
. correlate LogNIM PL LogLA TOPBT ETA LogCPI dLogGDP
(obs=58)
```

	LogNIM	PL	LogLA	TOPBT	ETA	LogCPI	dLogGDP
LogNIM	1.0000						
PL	0.4059	1.0000					
LogLA	0.6780	0.5068	1.0000				
TOPBT	0.0425	0.3150	0.0893	1.0000			
ETA	-0.3912	-0.2413	-0.4235	0.0264	1.0000		
LogCPI	0.0528	0.0387	0.1313	0.0706	-0.0198	1.0000	
dLogGDP	0.0991	0.1172	0.2573	0.1555	-0.2620	0.1426	1.0000

While analyzing correlation matrixes it can be mentioned that ROA has negative correlation with almost all variables both for local and foreign banks.

We understand that there is a data constrains problem due to the fact that the banking sector of Kazakhstan does not have so many foreign banks. In addition to this, all necessary data was not always available. In spite of this problem we provided all the necessary data for some foreign banks operating in banking sector of Kazakhstan.

### Data analysis with critical thinking and discussion

Quarterly data for three foreign banks for the period of 2009-2019 was covered by this research. These data and results were compared with nine local banks' data and results for the same period. While running the regression for these two groups we obtained the results which were different from each other for most of the variables.

Here are the regression results for local banks

Source	SS	df	MS	Number of obs	=	352
Model	89.9765455	7	12.8537922	F(7, 344)	=	17.01
Residual	259.945783	344	.755656347	Prob > F	=	0.0000
				R-squared	=	0.2571
				Adj R-squared	=	0.2420
Total	349.922329	351	.996929712	Root MSE	=	.86928

LogNIM	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
PL	-.0198493	.0135837	-1.46	0.145	-.0465668 .0068681
LogLA	.2798042	.0688323	4.07	0.000	.1444191 .4151892
TOPBT	.0000954	.0001191	0.80	0.424	-.0001388 .0003296
ETA	-.0105246	.0022055	-4.77	0.000	-.0148626 -.0061867
LogCPI	-8.93243	4.767494	-1.87	0.062	-18.30954 .4446791
LogGDP	7.029148	1.314294	5.35	0.000	4.444085 9.614211
LogCPI	0	(omitted)			
dLNNTA	.1111323	.3099023	0.36	0.720	-.4984096 .7206743
_cons	-6.854627	11.70713	-0.59	0.559	-29.8812 16.17194

Source	SS	df	MS	Number of obs	=	352
Model	967.220543	7	138.174363	F(7, 344)	=	1.93
Residual	24617.6373	344	71.5628991	Prob > F	=	0.0640
				R-squared	=	0.0378
				Adj R-squared	=	0.0182
Total	25584.8578	351	72.8913328	Root MSE	=	8.4595

ROA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
PL	-.398771	.1321901	-3.02	0.003	-.6587736 -.1387685
LogLA	-.1297495	.6698443	-0.19	0.847	-1.447256 1.187757
TOPBT	-.0001288	.0011589	-0.11	0.912	-.0024081 .0021506
ETA	.0061795	.0214628	0.29	0.774	-.0360353 .0483943
LogCPI	-28.35416	46.39509	-0.61	0.542	-119.6079 62.8996
LogGDP	-1.536564	12.79011	-0.12	0.904	-26.69322 23.6201
LogCPI	0	(omitted)			
dLNNTA	5.061135	3.015829	1.68	0.094	-.8706502 10.99292
_cons	63.93658	113.9285	0.56	0.575	-160.1475 288.0207

From the above regression results we can conclude that our model can not be used for ROA due weak numbers of F-statistics and R-squared values. On the contrary NIM values can be well explained by the ratio of loan to assets and earnings to asset sizes with positive and negative coefficients respectively. Also GDP contributed to the explanation of variations in NIM with a negative coefficient.

As to foreign banks, we obtained the following regression results:

```
. reg ROA PL LogLA TOPBT ETA dLogGDP LogCPI
```

Source	SS	df	MS	Number of obs	=	58
Model	6.5547164	6	1.09245273	F(6, 51)	=	2.90
Residual	19.183072	51	.376138667	Prob > F	=	0.0163
				R-squared	=	0.2547
				Adj R-squared	=	0.1670
Total	25.7377884	57	.451540148	Root MSE	=	.6133

ROA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
PL	-.439668	.1409569	-3.12	0.003	-.7226508 -.1566852
LogLA	.0394407	.1167845	0.34	0.737	-.1950139 .2738953
TOPBT	.0000351	.0001109	0.32	0.753	-.0001875 .0002576
ETA	-.0300796	.0122899	-2.45	0.018	-.0547527 -.0054065
dLogGDP	-1.414025	3.510193	-0.40	0.689	-8.46103 5.632981
LogCPI	-10.34648	8.86111	-1.17	0.248	-28.13591 7.442936
_cons	21.89102	17.8689	1.23	0.226	-13.98231 57.76434

```
. reg LogNIM PL LogLA TOPBT ETA dLogGDP LogCPI
```

Source	SS	df	MS	Number of obs	=	58
Model	17.6884865	6	2.94808108	F(6, 51)	=	8.09
Residual	18.5745387	51	.36420664	Prob > F	=	0.0000
				R-squared	=	0.4878
				Adj R-squared	=	0.4275
Total	36.2630251	57	.636193424	Root MSE	=	.6035

LogNIM	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
PL	.0931503	.1387031	0.67	0.505	-.1853079 .3716085
LogLA	.5460172	.1149172	4.75	0.000	.3153113 .7767231
TOPBT	-.0000176	.0001091	-0.16	0.872	-.0002367 .0002014
ETA	-.0149619	.0120934	-1.24	0.222	-.0392405 .0093167
dLogGDP	-3.145932	3.454068	-0.91	0.367	-10.08026 3.788399
LogCPI	-1.493651	8.719429	-0.17	0.865	-18.99864 16.01133
_cons	5.942966	17.5832	0.34	0.737	-29.35678 41.24271

Similar to the results obtained for local banks, our model was found weak in explaining the changes in ROA. As to NIM changes explanation through its independent variables, we can only observe strong positive coefficient for the ratio of total loans to assets.

### Summary, conclusion and recommendations

This paper investigated the profitability determinant differences of foreign and local commercial banks of Kazakhstan banking industry. Through the research process, the paper analyzed the influence of macroeconomic as well as bank specific indicators on foreign and domestic banks operating in Kazakhstan. The empirical findings reported that the profitability determinants of foreign banks have similarities as well as differences. The ratio of total loans to assets positively influences both domestic and foreign banks. The ratio of total equity to assets negatively influences and GDP positively influences just the local banks' profitability. The reason being for such a result might be due to the fact that the foreign banks are mostly influenced by external factors rather than internal factors. In addition to this, some foreign banks limit their services by offering less number of banking operations to limited group of institutional clients or limited

types of retail operations. This fact also made the profitability determinants of foreign banks different from the determinants of local banks.

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# **Strategy Implementation: Review of Theories and Research Perspectives**

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## **Introduction**

The influence of strategy on improved organizational performance is well evidence in numerous empirical research. Researchers from both developed, emerging and developing world revealed such findings from both public and private sectors. However, sometimes managers do not understand the importance of strategy. In some cases, managers understand the importance and develop good strategy, but they failed to implement their well-crafted strategy. There are many factors affect the failure of strategy implementation. Therefore, performativity of strategy became a critical concern for managers and policy makers. Many researchers examined performativity and non-performativity of strategy in different contexts and from different perspectives. This section of the thesis, we will try to find different views of performativity. Based on those views, we will identify the appropriate theoretical background of our study to investigate the performativity of strategy in KZ context and more specifically, the implementation of strategy in private and public sector organization in Kazakhstan.

## **2.1. Strategy Implementation: Main Theories**

The strategy implementation process and practices could be explained from many different perspectives. Researchers from different perspectives used different theories to investigate the strategy formulation as well strategy implementation in different national contexts. The following theories are commonly used by the researchers to analyze the strategy implementation.

### **2.1.1. The Contingency Theory**

The proponents of the contingency theory argue that organizational features and practices are influenced by organization's size, products, markets, and technological development and possess universality related to economic and situational circumstances of the organizations irrespective of the societal contexts in which they are embedded (Aldrich, 1979; Hickson et al., 1979; (Hickson et al., 1974; Hickson and McMillian, 1981; Pugh and Hickson, 1976), Schuler and Jackson, 1997; Womack et al., 1990). Most of the contingencies theorists identified micro and macro-level variables as a 'set of universal factors' that influence the strategy and structures of the organizations irrespective of different national contexts. In case of strategic management practices, researchers found that size, experience, ownership and sector of the organizations have strategy formulation as well as implementation across national boundaries (Purcell, et. al., 1999; Welch, 1994). In addition to micro-level factors, there are also sectoral, ownership, and corporate governance related factors that influences on adoption of strategic management practices around the world. (Adler and Ghadar, 1990; Monks, et al., 2001; Oliver and Wilkinson, 1992; Welch, 1994; Welch and Welch, 1997).

### 2.1.2. The Institutional Theory

The proponents of institutional theory argue that organizations are embedded in society (Scott, 1983; Zuker, 1987), and influenced by an array of social institutions to develop and adopt specific organizational and management practices those deemed to be appropriate in their environment and are reinforced in their interaction with other societal institutions (DiMaggio and Powell, 1983; Muller, 1994). It explains the observed differences between organizations in different societies by referring to specific institutional arrangements and social structures of the country. According to this view, organizations reflect the society and the society reflects some aspects of organizational structures and policies (Muller, 1994). The institutionalist approach does not reject the idea of contingency (Sorge, 1983; 1991), but makes the point that it should be analyzed within a societal perspective, in order to reveal the organizational processes taking place in the society.

### **2.1.3. The Agency Theory**

The basic idea of the agency theory is to describe the relationship between two parties in which the principal(s) hires and delegates some work to another party an agent (or agency) who acts on behalf of the principal in required direction. (Jensen & Meckling, 1976). The outcomes of the agent performance has different consequences that influence the success of both the principal and the agent. Usually the agent has required capacities to fulfill the expectations of the principal. The challenge for the principal is to hire an appropriate agent and decide on compensation system for paying the agent. The selection procedures can be done by means of interview, recommendation from previous employers, tests, etc. The evaluation process of the agent often based on the outcomes of the agent's performance, but also may be assessed on the action itself.

### **2.1.4. The Stewardship Theory**

The stewardship theory argues that human beings have emotions and values and they are intrinsically motivated work for the organizations if they are alignments between organizational goals and personal goals and objectives in the organizational contexts. It is assumed that people are collective minded and usually show pro-organizational behavior and therefore, work towards attainments of organizational, group and societal goals as those brings higher level of satisfaction from work accomplishments. Stewardships recognize the trade-off between personal goals and organizational goals, but expect that collective organizational goals will subsequently bring benefits to fulfil the personal needs and goals in the long-run. In organizational contexts, it is assumed that under appropriate organizational culture and environmental factors, managers will show stewardship behavior and will help the organizations to achieve desired goals and objectives by sacrificing the opportunistic behavior as postulated in Agency theory.

### **2.1.5. The Stakeholder Theory**

Stakeholder theory argues that organizations are established and managed by different groups of people and entities and all of them have their own stake or interest in the organizations. The goals

and expectations of different stakeholders could be conflicting and contradictory in some occasions, and therefore, organizations could be dysfunctional and misguided by the stakeholders. Successful management of organizations required fulfilments of stakeholders' expectations and alignments of different stakeholders towards unified goals and objectives of the organizations.

#### **2.1.6. Activity Theory**

Activity theory proponents argued that an organization may be considered an activity system consisting of three main components, individual actors, collective social structures, and the practical activities in which they engage (cf. Blackler, 1993) to accomplish common activity through the interactions within the system. The concept of activity theory is a very useful instrument which suggests that implementation will be experienced differently by different individual actors according to their specific goals and interests, will have various practical activities in their engaged areas and collective structures plays an important role in these experiences.

#### **2.1.7. The Actor Network Theory**

The Actor-Network theory is concentrated on the role of the actor as a contributor or influencer of the process of communication rather than an executor of any activities. The notion of network in the theory offered us definition which is neither real nor social space, but heterogeneous chain of associations of collective actors. Actor-network theory helps us to examine the interrelation of human and non-human octants in the performance of the management, the technical, the social, the economic, etc. The purpose is to analyze and understand how entities can come together to form networks that produce agency and other outcomes such as new ideas, trends, policies, plans. Decisions, etc. For strategy implementation process the theory could have examined the current situation and analyze how and why alternative ways that different actors do (e.g employees, top management style, operational plans) can build productive communication for successful

implementation of strategy. Drawing ANT approach we can observe how operational plan affects people in terms of the implementation process and how people influence the operational plan (e.g. how they think, perform and communicate when they have a plan versus when do not have one). When we try to analyze the role of ANT in field of strategy implementation it was assumed that there are different socio-philosophical factors that could take place in the network but located outside the organization. We believe that ANT can create new useful approaches, reflections, ideas and results in the study of strategy implementation process.

## **2.2. Strategy Implementation: Dominant Perspectives or Approach**

Research on strategy implementation could be categories in three perspective or approaches based on their focus research questions. These three are ‘determinants’, ‘process’ and ‘outcome’ research perspectives.

### **2.2.1. The Determinant Perspective**

The determinants perspective mainly focused on factors that influence strategy implementation in organizational contexts. The objectives of this research perspective is to unearth the antecedents as well as barriers of different aspects of strategy formulation as well as strategy implementation practices in organizational contexts. Among different factors, earlier research followed this approach investigated the strategy formulation mode (Fernandez and Rainey, 2006; Stewart and Kringas, 2004), consensus (Dooley et al., 2000), level of commitment (Dooley and Fryxell, 1999), and participation of different stakeholders and decision makers (Huy, 2011).

### **2.2.2. The Process Perspective**

The Process research perspective focused on post-strategy formulation stage and aimed to investigate on the process of strategy implantation to assess its success or failure of strategies in organizational contexts (Alexander, 1991; Reed and Buckley, 1988; Stonich, 1982). Among

different process, researchers investigated the continuum of strategy implantation process such as rational and incremental approaches to assess the level and speed of the strategy implementations (Andrews et al., 2011). Other researchers investigated the strategy implementation from a linear perspective, i.e., by dividing strategies into different steps or stages and measured implementation procedure as perceived by managers and other stakeholders (De Feo and Janssen, 2001; Noble, 1999).

### **2.2.3. The Outcome Perspective**

The outcome perspective focused on assessing the impact of strategy implementation on organizational outcome (Hickson et al., 2003; Thorpe and Morgan, 2007). Researchers followed this perspective believe that strategy implantation is as important as strategy formulation. And therefore, to gain the competitive advantage of strategy, managers should focus on both the strategy formulation and strategy implementation equally (Andrews et al., 2011; Johnson, 2004; Montgomery, 2008).

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## **Petroleum industry: from large to small scale**

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### **ABSTRACT**

Today global economy, petroleum supply and demand are astatic and challenging. Conflicts in Middle-East, slowdown of global economy, growth of China and India, trade war, Brexit played a big role in constructing of oil and gas price. As top producer, Kazakhstan experienced economic recession and growth after declaring its sovereignty in 1991. The country is an attractive arena for key players in petroleum world. The paper focuses on global trend of economy and major energy sources over last 30 years. It also attempts to provide wider picture and discuss Kazakh petroleum industry and economy.

Keywords: *Petroleum Industry, Global Economy, Economy of Kazakhstan, Kazakh Petroleum Industry*

### **INTRODUCTION**

After global recession due to the financial crisis of 2008, world economy is still recovering. According to recent data, the annual growth was below 3% over last 10 years, whereas the projection of next five years shows minimum 3% despite trade tension between two powers, BREXIT and instability in Middle East (United Nations, 2019). As an example, the number of world economic growth, in 2018, demonstrate 3.1%. (United Nations, 2019)

Numbers can be different depending on the regions. The growth of developed economies is around 2% since 2016, whilst emerging markets have roughly 5% (International Monetary Fund, 2019).

The prime contribution for latter group comes from South-East Asia Developing economies account for over 80% of the expansion in world output, with China and India accounting for around half of that growth. “The vast majority of world growth is driven by increasing productivity (i.e. GDP per head), which accounts for almost 80% of the global expansion and lifts more than 21.2 billion people from low incomes (BP, 2019). The emergence of a large and growing middle class in the developing world is an increasingly important force shaping global economic and energy trends” (BP, 2019). The contribution of Africa into world GDP continue to decrease by 10%. (BP, 2019) East Asia and West, Central and Southern parts of Africa slowed down within past two decades. (International Monetary Fund, 2019)

These fluctuations and imbalances lead to trade policy disputes, endangering sustainability of economic growth and other problems. As a consequence, it impacts on production and consumption of major energy resources. It is important to note that concerns from climate change also require to make amendments in regulations of supply-demand dimension. Especially, petroleum industry needs to be first in changes as they are more volatile than other sectors.

As per the forecast horizon of 2019-2025 by International Monetary Fund (IMF), GDP growth in advanced economies is predicted to be at stable rate of 2% (International Monetary Fund, 2019). The number for developing countries is projected to have a slight increase reaching around 5% (International Monetary Fund, 2019). This increase is supported by raising of private consumption and fixed investment in the regions.

According to annual report of British Petroleum (BP), world GDP is predicted to be doubled by 2040. The growth is primarily driven by fast-growing developing economies. The population growth and higher living standards lead to increasing of energy consumption. The energy demand will be considerably boosted by 50% (BP, 2019). Despite the positive outlook, almost 70% of world's population encounter problem of insufficient energy supply. In order to comply the demand of 9.2 billion population in 2040, the vast resources are essential (BP, 2019). The industry and buildings are leading sectors of demand since 1970 reaching the figure of 75% in next two decades. The major role of China (34%), US (20%) and India (15%) in energy consumption is continuously growing, whereas OECD countries are seen to have plateaued trendline between 2010 and 2040. (BP, 2019)

The data provided by Global Commission on the Geopolitics of Energy Transformation, numbers for the average GDP growth and energy demand were the same set at 3% last century. Notwithstanding, this century brakes relationship where energy demand is increasing by 1% until 2040 (Global Commission, 2019). The main reason lies in the aspects like energy efficiency. Another source provides the data where annual growth of energy consumption at 2.9% since 2010. (BP, 2019) The growth came from natural gas which has the largest increment with 40%. There are many reasons for the gas popularity. This energy resource is "greener" and cheaper than other alternative ways and because of worldwide oil reserves depletion in existing oil fields. BP

Undoubtedly, crude oil price is a key factor in supply-demand balance. The sharp rocketing of the price was principally related to war and political turbulence in big suppliers of Middle-East over the history reaching above \$100 per barrel (BP, 2019). In spite of oil price volatility established at around \$70 in 2019, the consumption soared by 1.5% or 1.4 million barrels per day where China with 680,000 b/d and US with a half of million b/d are the largest contributors in primary energy growth (BP, 2019). The production of black oil increased by 2.2 million b/d. (BP, 2019) Owing to economic sanctions and political turmoil, the main global players have recently changed. US, Saudi Arabia and Canada strengthened their position by increasing of countries' production, while the share of Iran (-580,000 b/d) and Venezuela (-310,000 b/d) declined. (BP, 2019). From long term view, the share of oil in total energy demand is predicted to decline steadily. The sectors like road transport and chemicals are key drivers in oil demand. McKinsey's forecast (McKinsey, 2019) provides the share will be 32% in 2035 and 29% in 2050. Furthermore, the natural gas keeps a downward trend after peaking in 2035.

The natural resource with the highest consumption rate of growth since 1980s is gas (BP, 2019). As a result, the number reached 195 billion cubic metres (bcm). US (78 bcm) takes a leading position in gas consumption then China (43 bcm), Russia (23 bcm) and Iran (16 bcm) (BP, 2019). Concerning natural gas production, the countries listed above are almost same with exception of

China displaced by Australia. (BP, 2019) Natural gas is used mainly by power, industry and transport segments next four decades supported by increasing popularity of liquefied natural gas (LNG). (McKinsey, 2019)

The coal demand continues to grow from data of 1970s to the projection of 2040. The fuel consumption doubled its 10-year average growth driven two most populated countries (BP, 2019). Albeit, the upward trend in global scale maintains, the economies from OECD group intentionally due to ecological concern and depletion of resources slow down the rate of fuel demand since 1975 (BP, 2019). The share of coal as a primary energy sources plummeted nearly to 28% being the lowest within last 15 years. The main producers are China and Indonesia strongly supporting globally increasing tendency. (BP, 2019)

Eventually, the attention to renewables, hydro and nuclear is considerably growing. Since conventional energy sources are limited and exhausting. In order to satisfy the “appetite” of the growing world population, some alternatives are required. Some countries fully transform energy policy not to be dependent on others and incentivize investors to pump cash in these energy sources. McKinsey reports renewables with nuclear will double their share by 2050 from 19% to 34%. China with 45% is the largest player in regarding with renewables growth outpacing the entire OECD (McKinsey, 2019). The same picture by China again is seen in nuclear industry where the country contributed three quarter of global growth. Japan is the second. The nuclear generated more power by 2.4% than in 2017. (BP, 2019) Hydroelectric sector is still the least contributor among others. By 2050 the renewables are projected to produce additional 79 million terajoules or 14% power comparing with 2016 against fossil fuel with declining slope. (McKinsey, 2019)

## **WORLDWIDE PETROLEUM INDUSTRY**

### *Oil*

*BP Statistical Review of World Energy* (2019) allow us to see the distribution dynamics of proved reserves starting with 1141.2 thousand million barrels in 1998 ending with 1729.7 thousand million barrels in 2018 (shown in Table 1). As noted, the overall trend is positive because of more oil-rich countries go to deeper, offshore and unconventional fields. New technologies in reservoir evaluation, drilling and production also needs to be considered as a reason for reserve growth over past decades. The depletion of old fields developed in 60s caused chasing other ways to fill country’s reserves. According the data of 2018, almost a half of the global reserves belong to Middle East comparing with 60% distribution of proved reserves in 1998 (BP, 2019). North, South and America remarkably have soared their reserves and become 2<sup>nd</sup> and 3<sup>rd</sup> oil rich regions within 20 years (BP, 2019). Nonetheless, South and Central America has the highest ratio in context of reserves-to-production. During 136 years the region is predicted to extract with current rate, while Europe has 11 years (BP, 2019).

If Middle East is dominating in oil production, Asia Pacific and North America are the biggest consumers. By country, USA, Canada and Saudi Arabia have the highest number of consumption per capita over 2.5 tonnes. (BP, 2019)

Some global trend by the report (Kazenergy, 2019) are pointed out that the oil price is more favorable, but still fragile in contrast with the period of 2014-2016. Therefore, oil industry pays

more attention the importance of cutting costs and creating competitive conditions to attract external investment. Concerns about climate change also force petroleum companies to diversify their operations and to implement carbon-reducing activities.

The oil price with is fluctuating with the range between below \$5 and above \$110 since first oil production (BP, 2019). It was plateaued by the end of 1960s. (BP, 2019) Afterwards, Arab-Israel War and Iranian Revolution, Iraq invasion into Kuwait stimulated oil price to grow sharply. Breaking the chain of production-consumption causes skyrocketing of oil price which is very sensitive. Recent reasonable surge happened during invasion of Iraq to topple the former leader of the country and Arab Spring. Then the price slowed down reaching below \$50 caused by global economic recession (BP, 2019). The sensitive countries to oil price suffered more and formed cost-savings and austerity budget plan. Some countries experienced exodus, political and country crisis because of the shortage of budget. Another group of countries benefits to pump their country level oil reservoirs. Currently, US-China trade tension, Iran-US escalation, US-Russia insecurity in Middle East, uncertainties about BREXIT deal dictates oil price to be volatile. (Kazenergy, 2019)

Climate change becomes hot topic for the country leaders and governments constrained by environmentalists, scientists, even government leaders. Paris agreement in 2015 is one of example how the problem of global warming connects more and more people and oblige governments to commit swift actions in carbon-emission cut. Undoubtedly, it implies petroleum companies are required to establish reduction target for their oil products and operations and shift of revenue to other alternatives. For instance, the companies are projected to spend \$7 billion annually on carbon reduction accounting for 5% of their CAPEX. (BP, 2019). Gradually, electrocars pressurize auto industry and petroleum companies to examine the source of their revenues. After the peak of 2025, the demands are predicted to remain at same level within next 15 years (BP, 2019).

Table 1 – Worldwide oil proved reserves and production data

<b>Year</b>	<b>Proved reserves, thousand million barrels</b>	<b>Production, thousands of barrels per day</b>
1998	1441.2	-
2008	1493.8	83 069
2018	1729.7	94 718

## *Gas*

Regionally, overall picture of proved reserves has a difference with respect to oil. Table 2 illustrates how total reserves grew from 130.8 trillion cubic metres to 196.9 trillion cubic metres (Table 2) from 1998 and next 20 years. (BP, 2019) Middle East and CIS regions, in total, have 70% of world proven reserves throughout the provided period of time, while any notable changes were not observed for the rest gas-holders (BP, 2019). The reason for gas reserve growth is likely to be the same as oil.

The production data presents that North America and CIS are key extractors despite Middle East has the largest percentage of global gas reserves. Although Middle East and Asia Pacific intensified to produce over last years. The biggest consumers like North America, Europe and CIS consume

the same gas volume since 1993 (BP, 2019). The tangible growth of the natural resources is seen in Asia Pacific and Middle East. As per the data of consumption per capita, US, Canada, Russia, Saudi Arabia, Iran and Turkmenistan have the highest level with more 2 million tonnes oil equivalent (BP, 2019). By sectors, the industry and power are major users.

The natural gas price in comparison with oil is more consistent. The highest point was reached between 2011 and 2014, then the price went down in 2016 and is rising until now (BP, 2019). More countries, nowadays, move from oil to gas for ecological reasons.

Kazenergy (2019) expects that liquefied natural gas (LNG) consumption rises more rapidly than that of overall gas. The year of 2018 was record setting in regarding with LNG delivering to global trade, reaching 316.5 million tonnes with around 10% growth from previous year. Last five consecutive years, LNG consumption trend is upward. The demand for this type of fossil fuel is forecasted to double up to 630 million tonnes by 2030 (Kazenergy, 2019).

The natural gas price is a sensitive political issue for some countries. In order to avoid destabilization and detrimental impacts on economics, the authorities seek to negotiate with suppliers for adequate price or explore new fields to fill the demand gap. Europe depends heavily (40%) on Russia’s gas (BP, 2019). The neighbors of Russia have recently undergone to be ceased gas supply. The case signaled to world that some leaders with hydrocarbon rich countries take advantage of resources to dictate, manipulate and harm others. To secure continuous transportation, the diversification is essential. Therefore, European countries attempts to search other options to lessen their dependence on Russia’s gas. The giant project between Russia and China was signed to invest \$75 billion on 4000 kilometres pipeline construction and deliver \$400 billion LNG over 30 years. (The Guardian, 2014)

Table 2 – Worldwide gas proved reserves and production data

<b>Year</b>	<b>Proved reserves, trillion cubic metres</b>	<b>Production, billion cubic metres</b>
1998	130.8	
2008	170.2	3 029.8
2018	196.9	3 867.9

## **KAZAKHSTAN’S PETROLEUM INDUSTRY**

### *Kazakh Economy*

Kazakhstan has different energy resources ranging from petroleum to uranium. The country is in list of top-20 oil and gas producers. Current economic indicators as GDP is \$152 billion (World Bank in Kazakhstan , 2018). GDP growth is expected to be 3.2% next two years (World Bank in Kazakhstan , 2018) Table 3 demonstrates the main characteristics of Kazakh economy (Deloitte CIS Research Centre , 2019). There are three key sectors of Kazakh economy such as, trade (17%), oil and gas (15%), and manufacturing (11%) (Deloitte CIS Research Centre , 2019). Petroleum sector generates 44% of the state budget., 70% of total export earnings (\$42.7 billion) (Kazenergy, 2019) The high reliance on oil and gas price creates some uncertainties and risks on country

development: stagnation of the economy, lower domestic consumption, weakening of the currency. The international agencies Moody's, S&P and Fitch assessed the credit ratings Baa3, BBB- and BBB with stable outlook. Fitch commented: "The key factor supporting Kazakhstan's rating is strong state and external balances, which are supported by significant state savings and substantial net foreign assets of the state." (Deloitte CIS Research Centre , 2019)

Table 3 – Kazakhstan's GDP

<b>Year</b>	<b>GDP, billion USD</b>	<b>GDP growth, %</b>
2007	106.6	8.9
2010	147.3	7.3
2015	222.6	1.2
2018	182.1	4.1
2020*	187.6	3.2

\* forecast

### *Oil and Gas reserves*

The large proportion reserves of Kazakhstan are accumulated in PreCaspian and Mangyshlak basins. Moreover, other fields concentrate Turgay, Chu-Sarysu and North Usturt Basins. State Commission on Reserves claim that the state reserves account for 24.6 billion barrels including all liquids, where 22.4 billion barrels are crude oil and the rest is gas condensate. Compared with 2016 data, the country reserves decreased by 45.1 million barrels (Kazenergy, 2019).

### *Big 3*

There are three giant fields and their reserves demonstrated in Table 4. The first field Tengiz started to be developed after signing the 40-year contract in 1993 between Chevron (50%), ExxonMobil (25%), KazMunaiGas (20%) and LukArco (5%) (Kazenergy, 2019). Overall CAPEX was estimated about \$135 billion. The field is the biggest liquid reserves among three that has 25.4 billion barrels. The production level was set 623 000 b/d in 2018 (Kazenergy, 2019).

Next field called offshore Kashagan is operated by joint venture including KazMunaiGas (16.88%), Eni, ExxonMobil, Shell and Total with 16.81%, CNPC (8.33%) and INPEX (7.56%). Actually, the first commercial oil was produced in 2016 despite agreement by stakeholders took place in 1997 allowed to operate to 2041 (NCOC, 2018) The field CAPEX is over \$60 billion. 8-15 billion barrels of oil are hold by reservoirs with 281 000 b/d production. (Kazenergy, 2019)

The unique Karachaganak with 10 billion barrels of condensate or "liquid gas" shares by Shell (29.25%), ENI (29.25%), Chevron (18%), Lukoil (13.5%) and KazMunaiGas (10%). The output for 2018 was 287 000 b/d. CAPEX is less than others with \$22 billion. The contract term ranges between 1995 and 2037 (Kazenergy, 2019).

Table 4 – Reserves and Liquid Production of Big 3

<b>Fields</b>	<b>Reserves, bbl</b>	<b>Production (2018), b/d</b>
Kashagan	8-15	281 000
Tengiz	3.4	623 000
Karachaganak	1.2	278 000

### *Producers*

Tengiz consortium (TengizChevroil Operating), Kashagan consortium (North Caspian Operating Company) and Karachaganak consortium (Karachaganak Petroleum Operating) are paramount players in Kazakhstan Petroleum Industry. In recent years the national oil company KazMunaiGas (KMG) established by government reinforces the position in petroleum sector and increase shares. The company is the largest producers on an equity basis owing to being holder of “Big 3” (Kazenergy, 2019). However, other fields owned by KMG are mature and present therefore a decline in performance. The state company seek to enhance oil recovery in these fields. Another raising companies came from China. Chinese companies contributed to produce over 18% of Kazakh oil in the prior years (Kazenergy, 2019). The share growth from Chinese counterpart, inadequate distribution between local and Chinese workers, disrespectful ecological treatment were footprint local people to concern growing influence and trigger anti-China protests across the country. The group also demands Kazakh authorities to oppose the increasing tendency of the neighbor and take immediate actions. In 2018, 78 small companies produced 182 000 b/d or 10.5% of total output. (Kazenergy, 2019). To boost their production, they are needed to exploit effective technology, hire well-experienced engineers and explore possible areas. Kazenergy (2019) believes that *“more extension adoption by the independents of international reserves classification standards – PRMS methods – could also boost their overall competitiveness and attractiveness”*

### *Oil: Production*

The dynamics of oil output fluctuated through the country history. During 2017-2018, petroleum production recovered after the slump and reached 1.9 million barrel per day driven by Kashagan project (Kazenergy, 2019). Only three fields accounted for 60% of all kazakh oil namely, Kashagan, Tengiz and Karachaganak called “Big 3” (Kazenergy, 2019). The rest 40% is generated by more 200 fields which the most of them are maturated. Kashagan is, in contrast, new mega project. Tengiz and Karachaganak have almost 30-year history and the contract with foreign investors was prolonged (Kazenergy, 2019). The government plans to enhance total production by 39% (2.65 million barrels per day) during 2019-2035, mainly, by Tengiz and Kashagan (Kazenergy, 2019). Consequently, crude oil exports are predicted to grow by around 50% (2.18 million barrels per day) followed by moderate decline (Kazenergy, 2019).

Table 5 – Kazakhstan’s crude oil and condensate production

<b>Year</b>	<i>2010</i>	<i>2013</i>	<i>2015</i>	<i>2018</i>
<b>Production, million bbl</b>	584	600	583	663

## Gas: Production

General trend of the production is upward, although the sharp growth is noticed since 2015. The big proportion of the commercial production belongs to Karashaganak with 10.3 bcm, Tengiz (9.2 bcm) and Kashagan (5.46 bcm) in 2018. These Big 3 generate about  $\frac{3}{4}$  of all country gross gas. For 2040 horizon, Kazakhstan plans to increase gas output to 84.4 bcm/year or by 52%. The largest part of the growth is expected to obtain from Kashagan (95%). The rest of Big 3 will play insignificant role in gas generation. (Kazenergy, 2019)

Table 6 – Kazakhstan’s gas production

Year	2010	2013	2015	2018
Production, billion cm	37.4	42.4	45.3	55.5

## CONCLUSION

Despite of big uncertainties in global economy and petroleum industry in near and far future, rapid recession is not predicted. Any volatile situations with states of top petroleum producers can clearly affect on its price. In order to avoid fluctuations in economy and to retain stability, the countries seek to pump oil cash into budget and future nation reserves. Also, budget deficit can be avoided. After recent sharp decline of oil price, the system of high budget dependence on crude oil demonstrated its instability and signaled to most producers to rethink, reshape and diversify state development plan and policy. It is very crucial for the politics to comprehend it. As long-lasting economic downturn has negative impacts on government reputation and even existence. Middle-east is a good example to extract some lessons.

Kazakhstan heavily depends oil and gas exports. In order to bypass economic crisis, Kazakhstan expects to increase progressively production of petroleum output next 20 years. Big 3 helps to realize the government plan. Nonetheless, it is not sustainable growth plan for long-term. That is why, the country needs to foster and attract investment on non-hydrocarbon areas as agriculture, tourism and others. From the geographical point of view, Kazakhstan is situated between two big consumers and has tremendous opportunity to charge state’s budget.

From industry level, the production growth with the least expenditures and exploration of new fields imply necessity of high-skilled workers. Company partnering with authority and academia can develop competency and upgrade skills of local employees dictated by modern world. As known, required skills and knowledge is changeable throughout human history. Nowadays, it is undoubtedly notable due to rapid technological advancement for last 30 years.

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## **National Skill Development Programs: Review of Existing Models**

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### **ABSTRACT**

Advancing of skill development among citizens is a key to success for any countries. Skilled labor force generates innovations, values and knowledge. Therefore, government pays a great attention on skill formation considering the specifics of the state. Each nation has unique history, culture, mentality and wide-range of nationalities. All these aspects are used to design efficient and fruitful skill development model where stakeholders are state institutions, unions, associations, industry and academia. Firstly, the study attempts to give broader understanding why skill formation is essential for all interested parties. Then the current paper conducts analysis of existing development models and provide with examples.

Keywords: *Skill Development, Development Models, Skill Classification, Skill Formation*

### **INTRODUCTION**

Human Capital theory gives understanding that national skill development is a driver of the economic prosperity (Parrya & Hayden, 2015). In order to grow in context of economy, governments necessitate to reform trade policy and provide suitable conditions for the market. The reason for political establishments to focus on the reforms is to survive and sustain for long-term period, in other words, provide social and welfare security.(Sanghi et al., 2012) Thus, they design longstanding strategy, vision, development plan and objectives for the state. For reaching them, new skills are needed. There are two ways in minding the gap such as, importing skills from outside or produce inside for local citizens. It is no doubt second approach is safe and operates for long-term perspective, whereas the first for short-term. Therefore, the elites companionship with industry and government institutions devise national skill development model. Importantly, the model cannot be static, it should be dynamic and adaptable throughout the time. Education and training assist to utilize the model (Ashton & Sung, 1994).

Another explanation of country interests in skill development is new skills can set up high value-added industries. Notwithstanding, there are certain difficulties to encourage the local markets to transform from low- to high-value production (Ashton & Sung, 1994). Skill development helps to enhance company productivity and optimization of the work processes. Some scholars assert that human capital plays the most significant role in country economy and progress, especially, in service-oriented industry. (Parrya & Hayden, 2015).

At micro level, without skill development the state encounters skill shortage, lack of leadership and management. Improving them, it driving organization performance and contributes to country economy flow. However, there is not effective way to overcome itself. The works should be done by collaborating with all stakeholders such as, governmental body, business representatives, academia and skill councils. Their responsibilities are to define development direction, to set goals and to develop strategies, guidance, framework and standards. (CDAA, 2012).

According to the Ashton and Sung (1994), there are major two models. The former is based on the dependency and world system theories. Big economies and systems set trends of global skill development not only for developed nations but also the emergents. The latter theory suggests to remove the barriers to growth and development, build favorable environment for economic and business stakeholders. Then market corrects demanded skill and knowledge to be competitive. (Ashton & Sung, 1994) The market exploits the approach of labor-market where skill formation is created by high-demand. As consequence, it brings the growth in wages for particular skills and engage more employees. However, the development process is impractical because of information delivering and migration issues (Parrya & Hayden, 2015).

Research says skill formation is important for vulnerable and inclusive groups of people to sustain and satisfy their demands. (Parrya & Hayden, 2015) Scaling down to industry, new skills are, nowadays, key resources to improve company productivity and innovation level. (Mayor et al., 2015)

From other perspectives, there are four justifications of why national or sectoral skills is not static and need constantly to be updated. According to the authors *“These include firstly, pressures deriving from international competition and changes in technologies and global markets; secondly, international governance systems organized on a world or regional basis, international trade and capital movements and dominant country effects; thirdly, the actions of multinational corporations; and, fourthly, international ideologies and consumption patterns”*. The challenges originated from different parts of world pressurize state bodies, unions, market and employers and employees necessitated to respond immediately and wisely. (Ramirez & Rainbird, 2010)

## **SKILL CLASSIFICATION**

As per Parrya & Hayden (2015), there are three types of skills such as, cognitive skills, technical skills and soft skills like communication, empathy and leadership. Prior to skill formation for the strategy, the state defines what skills need to developed. It comes from the problems existed across citizens. The employer can encounter problems associated with skills gaps, skills shortage and skills mismatches. Mostly, skill gaps and skills shortage are primary issues originated from inadequate provision with skills by education system and deficit of certain skills for the market. In 2014, the World Bank run program called “Skills Towards Employability and Productivity (STEP)” to define how skills are related with employability and productivity. The research program produced database collected from around the world. As a result of the survey, the organization (2014) provides also three categories of skill: cognitive is *“ability to understand complex ideas, to adapt effectively to the environment, to learn from experience, to engage in various forms of reasoning, to overcome obstacles by taking”*, social-emotional skills include all traits related to emotion and communication and job-related skills need to solve problems. To specify these skills, the Figure 1 below provided:

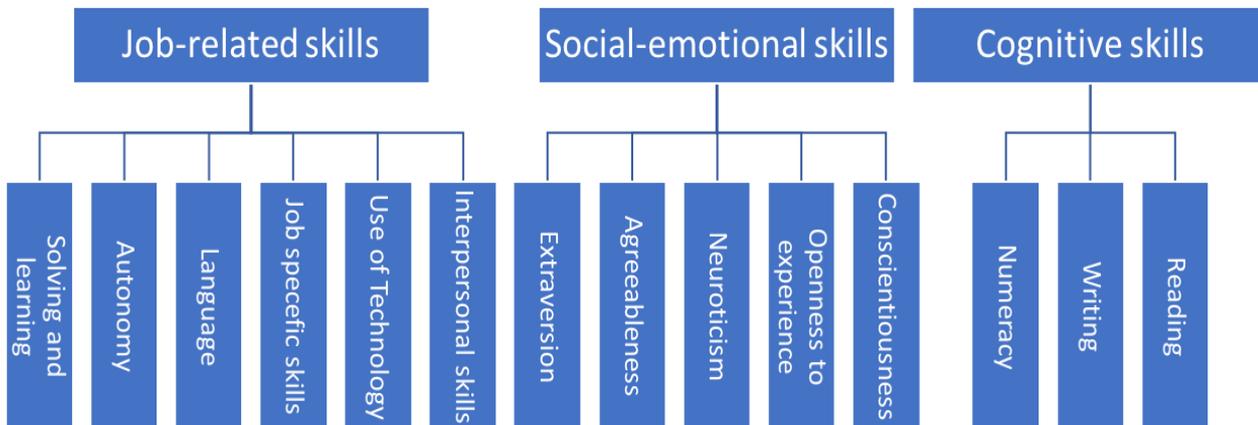


Figure 1 – Categories of skills from World Bank

Mayor et al., (2015) conducted research in food industry of Europe and find that management and non-technical skills can acquired out of university and working life. These qualifications come from trainings and extra-curriculum. Hence, the authors conclude soft skills development should be started from school and consistently updated at workplace. It is important to include skill formation in designing of school and tertiary curriculum. Further, basic technical skills should be taught from secondary school, where job-related from university life.

## MODELS OF NATIONAL SKILL DEVELOPMENT

Job suppliers demand skills to sustain, compete and expand their business. Therefore, they are highly interested. Raddon and Sung (2006) from University of Leicester propose four types of skill development models. They are employer-involved, employer-modelled, employer-owned and employer-driven. Model classification depends on employer involvement in designing of the skill formation. The involvement of employers is directly linked with willingness of employers to participate in the process, trust between government bodies and employers, confidence of employers about accomplishment of development programs. The balance should be hold skills between supply and demand.

### Employer-involved

They are two types of models: voluntary and non-voluntary involved to develop skills by industry. Voluntary involvement is when business are willingly interested in development process, whereas non-voluntary approach is to invest in skill formation required by government regulators. The first type is mostly practiced by Anglo-Saxon countries such UK, Australia, Canada and New Zealand. South Africa applies non-voluntary way to generate required skills to meet new global standards (Raddon & Sung, 2006).

India with the second biggest population in the world pumps huge amount of money on skill development to compete in severe environment. Slow economic growth and regional and global

rival as China presses to accelerate some initiatives in trainings. India started ambitious plan to run state body called Industrial Training Institutes (ITI) to complement the gaps in country trainings. Also, the National Council on Skill Development, the National Skill Development Coordination Board and the National Skill Development Corporation play a role to implement initiatives. The focus groups are citizens who do not have undergraduate diplomas. To enhance the quality of trainings, the body involves industry. The distinctive features of program are flexibility and wide-spread locations across the India. The goal of organization is to reach 500 million workforces by 2022. The source of financing is given in Table1. (Sanghi et al., 2012).

Having a look at India’s education statistics, one tenth of workforces are trained, 29% is illiterate and only 17% of them has secondary school and higher diploma. The government program emphasizes more on non-diploma population, which takes large of proportion. In spite of creating job spaces in India, the gap cannot be filled easily as expects. The reason for the problem lies on poor degree of education and skills provided by local universities and institutes. The program uses schools as means to translate knowledge and skills (Sanghi et al., 2012).

Public sector enables to involve via Committee in improving of ITI’s works and launching of development centers. The authors suggest to have platform where all interested stakeholders can make better decision-making and optimize skill development process. In addition, they believe National Occupational Standards including job criteria for all jobs are beneficial for all participants (Sanghi et al., 2012).

Table 1 - Source of Financing Development programs

1	Centers funded by medium and large enterprises
2	Sharing of cost of training by students
3	Private sector funds stipends
4	Centers can generate own income by selling products for operation cost
5	CSR
6	Loans via banks

### **Employer-modelled**

This type of the approach deploys the top companies as role models to share their practices and knowledge with small- and middle-size organizations. The trainings are primary tools in the process of practice propagation. The trained company are able to act and implement top advices to boost company efficiency and profit. However, not all top companies are willingly ready to be open. They also can see trained employer as potential competitors. Therefore, some incentive programs or exemptions for top organizations should be devised to ruin the border of anxiety and distrust. (Raddon & Sung, 2006)

In Singaporean example, the state obliged levy on low-value added companies to change their direction and practice. Despite some efforts, this was not efficient way to increase the number of re-skilled employees. After the analyzing of overall outcomes, Singapore attempted to create a training environment which was fruitful. In addition, the collected levy was source to establish the Skills Development Fund (SDF) and Vocational and Industrial Training Board (VITB), Basic

Education for Skills Training (BEST). The goals of the organizations were to subsidize programs for upgrading the existing skills among the locals. These programs embrace apprenticeship system with on-the-job and off-the-job trainings. Education systems were not exception where “re-skilling” policy introduced in designing of their curriculum. The workflow of the programs can be seen in Figure 2. (Ashton & Sung, 1994)

However, not all best models are applicable for everybody. Bishop (2015) notes the business approach of large organizations do not work very well for small ones. Because the their “structure, resources and business process” are contrasting. Furthermore, the author pointed out the low degree of engagement in trainings supplied by government could be associated with less awareness of small firms about the development programs.

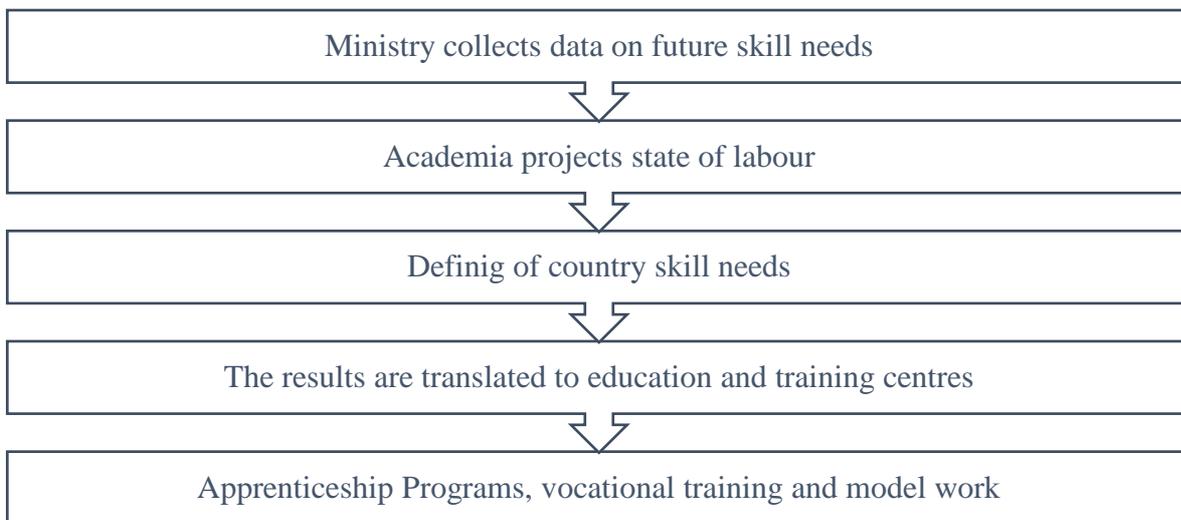


Figure 2 – Singaporean workflow of development program

### **Employer-owned**

Raddon & Sung (2006) claims employer-owned model exists which is practiced in certain industry sectors of Hong Kong and UK. As seen, the model is not well-spread over the world. The contribution of the state is the least in the skill formation program. The organization functions autonomically without the government intervention. To some extent, authorities should engage in working group, as they see broad country growth picture, vision and perspective. That is why, even the cooperation of two bodies at small scales is essential to be in win-win case. The market is catalysator of model running and donator. Depending of the sector, the service fee for business bodies is different. The model requires employer-owned union to be charged with setting standards, organizing trainings through specialized centers, assessing, implementing of accreditation process and aiding (Raddon & Sung, 2006).

The international companies involve to increase competency of local employees by transferring experience, knowledge and technology. The reason is to provide with products and services with high quality and to comply market requirements. (Ramirez & Rainbird, 2010)

Finland and Germany deploy employer-owned modelled. The specifics of their history and culture are crucial in opting right model to develop. Well-established cooperative and dialog-based

environment contributes to relationship between employer and employees. As a reason, skill development is seen as “a public good rather than an individual commodity”. (Bishop, 2015)

Germany developed apprenticeship programs where post-secondary school and post-high school graduates can join to industry for 2-3 years. The system allows to have trainings at workplace and vocational schools. The curricula is designed by cooperation of employer, unions and institutions. Wages come from mainly company and after the program can be increased 3-4 times. The major advantages of the system for company is to adopt, train and develop qualifications trainees. In positive case, the trainee has opportunity to join the firms. (Winkelmann, 2012)

### **Employer-driven**

The model supplies Vocational Education and Trainings (VET) in two way. The first is public, second is via partnership. The countries like Netherlands and USA practice the model to boost country skills. The industry contributes in defining key skills required in the near and far future to produce curriculum for the Knowledge Centers. Furthermore, they provide places and finance trainers. The dependent on financial circumstances, there are two categories of trainings: on-the-job and school based. The stakeholders are employers, employees, trainings centers and colleges. The sectoral industry amasses around their problems, concerns and objectives and then create partnership. The partnership invests and tackles specific issues which they are interested (Raddon & Sung, 2006).

Behind Swedish success lies the role of Science Academy and Associations, for instance, Iron and architecture industry. Despite insignificant funding came from the state, these organizations were primary drivers of industry sky-rocketing. Importing of foreign knowledge and skills from Great Britain and Germany, skill formation is taken place via training centers. (Kokko, 2010)

Another example is Malaysian approach how to handle with skill shortage. In accordance with state plan called “Vision 2020”, the goal was to transform the country to “knowledge economy”. Human Resource Development policy has to be “business-driven, reactive, proactive, knowledge-intensive”. This is driving force to become from labor-intensive to value-added economy. Public sector did not comply government requirements. Partnership with private sector including multinational companies was solution to meet the requirements. The collaboration assisted to upgrade skills of the locals through training centres. All aspects such as curriculum, management, finance and et al were driven by private partners. Government aimed to succeed in long-term, whereas private sector was interested in short-term needs. Despite their difference, partnership operated fruitfully. (Fleming & Søborg, 2002)

### **Other classifications**

According to the Bishop (2015), the author classifies the model into three groups: corporatist model, developmental state model and liberal free market model. Table 2 illustrates classifications with main stakeholders and examples.

Table 2 – Ashton’s classification

Type	Country	Stakeholder
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<i>Corporatist</i>	Scandinavian and Northern European countries	Employers, employee unions and the government
<i>Developmental state</i>	Singapore, Korea	Government and industry
<i>Liberal free market</i>	Anglo-Saxon countries	Employers and company

In the corporatist models the government body is moderator among parties, the rest like industry and unions serves to embody development plans and vision. Also, the employees are considered in the broader perspective as state values rather company one. The reasons can be related to state history and culture. Nonetheless, liberal free market model has totally opposite view where employees are firm's assets. Developmental state approach has wider purpose to gain the strategy controlled by the state. (Bishop, 2015)

## CONCLUSION

The national skill development is undoubtedly architected to prosper and boost in context of state economy, society, recognition towards authority. All parties are obsessive to acquire competitive advantage over the competitors. Because well-trained and qualified employees and citizens are able to generate value-added firms, organization and even state. The state pressurizes or incentivize private sector to advance and cultivate skills ruled by modern world. Primarily, these demands come from developed countries. As advanced economy has high-tech, eco-friendly and cost-effective technologies and innovations.

There are development models which country follows. The models are linked to the strategy and various depending on industry. Single approach cannot be applicable for sectors. Each industry has unique strengths and weaknesses. Thus, more than one model can be employed by private sector. The model should be opted throughout adequate analyze, research and test. If you date back to the history of developed economies, the right choice led to unpredictable wins. In order to avoid the fail, emerging markets should learn lessons and customize the model. "Copy and paste" methods are not relevant definitely. As a consequence, the misstep costs enormous resources and harm economy and stability of political establishments.

The reason for failures can also come from poor management and realization of development program. The lack of experience how to run such programs, corruptions and embezzlement are a part of negative outputs. Consequently, the bodies should take responsibility and fully engage in the formation process where there cannot be losers.

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## **Kazakhstan's National branding and FDI attraction: review of key milestones**

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Kazakhstan is a young, developing and modern country. Since its independent in 1991 she showed a great development and improvement towards market economy. Today (2020), according to the World Bank and International Finance Corporation Kazakhstan is ranked 22 in Doing Business Index (2020), which shows a significant upward trend since 2019 when Kazakhstan was ranked at 25<sup>th</sup> position and 41<sup>st</sup> position in 2016 (Doing Business; 2020). In regards to the location advantages Kazakhstan is in a strategic position between China, Russia and Central Asian countries and connecting it with Europe. Kazakhstan's political strategy implementation allowed her to generate about 60 percent of total GDP of Central Asian region (Bloomberg, 2018). The steps such as the introduction of principle "one-stop shop" allowed investors to receive all needed support services in one place at the same time with minimum bureaucratic barriers. Moreover, it allows transparent monitoring of the post-investment period progress (Kazakh Invest, 2020). Other steps include investment incentives such as 10- year exemption from land taxes and 8- year exemption from property taxes, up to 10- years exemption from corporate income tax, and "reimbursement of 30 percent of actual investment in fixed assets" (KPMG; 2019). All of these steps definitely created the basis for national promotion and attracting investment to the Republic of Kazakhstan as a prosperous and progressive market and a stable economy for foreign investment. Kazakhstan improves and tries to build a perfect foundation for businesses to work in various sectors and government doing its best to collaborate with different countries.

National and destination branding are, arguably, more complicated segments due to the fact that they are to some extent directly linked to the emotional side of the target audience. In other words, different people have different pre-formed opinions and generalizations about brands and, certainly, various nations due to mixture of diverse factors such as educational and personal background, character of individuals and geographical position. Furthermore, different economic, political events that occur around the world and, in particular, within a country have their impact on the brand image and the interpretation of the brand itself. This depicts the fact that the interpretation of the brand may change due to these four factors: educational and personal background, character and geographical position. National branding and reputation - as well as similar concepts in the business world - are of delicate nature although their establishment and slow but steady progress can take many years, whereas the status or image can be tarnished in a matter of hours. With regard to the change of perception, it is judged not just by words but by also deeds. Similarly the reputation of the nation is changed through deeds as well as words. At this

stage Kazakhstan is already implementing promotional strategies, however one might argue that they are not under the same promotional umbrella, which debatably, decreases the process of spreading awareness regarding Kazakhstan. This leads to the gap in development and promotion of National brand and limits the attraction of FDI.

The proposed conceptual framework for this study is displayed in Figure 1.

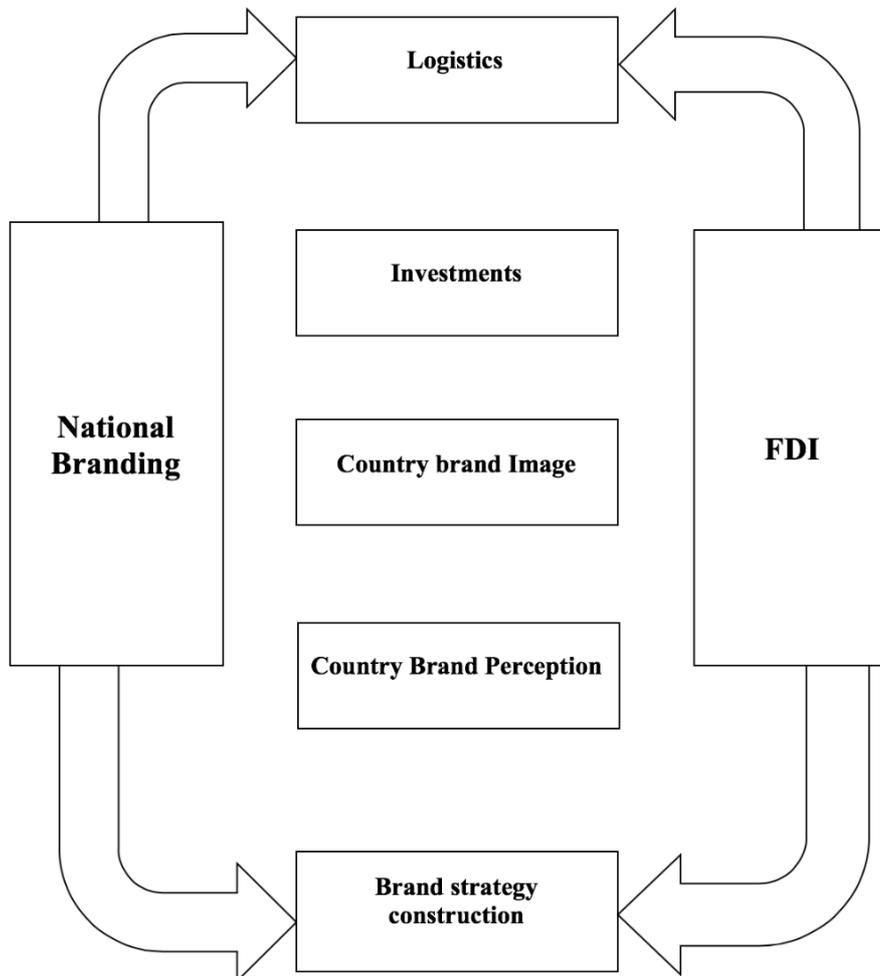


Figure 1. Conceptual framework for the development and promotion of Kazakh national brand (Nurpeissova, 2020).

### Logistics

In a contemporary era of digitalization and economy of globalization- logistics is essential sector in further development of a certain country. “World market for transport logistics is estimated at US\$ 2.7 trillion, or about 7% of World GDP”, which shows that it is a very profitable and important area (UNECE, 2019). Also it is a significant source of national income. Hence, the challenges concerning the development of logistics are regarded as one of the priorities of the government development strategy for the past decade. It can be argued that Kazakhstan has a solid basis for the

development of the logistics sector in the region. She is located in strategic position neighboring Russia, China and Central Asian countries and connecting it with Europe, which allows it to be a transit between its neighbors. Moreover location aspect may be regarded as the crucial catalyst for further improvement of the country's transport and logistics sector. The development of the efficient logistics routes is mainly explained by the fact that major areas that allows the further growth of “China's economy are the western and central provinces” that are closely linked to rail transport through Kazakh regions (UNECE, 2019). More to the point Kazakhstan is a significant “transit hub for oil and natural gas flows between Russia, China, Turkmenistan, Uzbekistan [and] Kyrgyzstan” (World Bank Report, 2018). Taking into account the importance of the country in Asian region stimulates further progress of logistics and transport sector. At the Foreign Investors Council meeting in 2019, it was mentioned that Kazakhstan can be regarded as a bridge between Asia and Europe as a result the government aims to be one of the largest and most important logistics hub in the Asian region (UNECE, 2019).

Table 1 LPI index Kazakhstan

Indicator		2014	2016	2018
LPI		88	77	71
Score		2.70	2.75	2.81
Quality of trade & transport infrastructure	rank	106	65	81
	score	2.38	2.76	2.55

(World Bank, 2014; World Bank, 2016; World Bank, 2018).

Referring to Table 1 above Kazakhstan ranked at 133 position in LPI in 2007, with the great improvement in 2018 Kazakhstan holds 71 position. In comparison none of the CIS and Central Asian countries has achieved such success, to exemplify, Russia holds 75 position, Belarus is at 103 position and Kyrgyzstan ranked 108 (World Bank, 2018).

### Investments

Kazakhstan is trying different approach to engage with the investors of different countries. For example, it became a member of Eurasian Economic Union, a free-trade bloc that includes Russia, Belarus and Kazakhstan with the follow up joining of Armenia and Kyrgyzstan a couple of years ago. Another approach is visa incentives that allows 44 countries citizens to visit Kazakhstan for 30 days without visa. In the contemporary time, these are significant steps in attracting not only tourists but also potential businesses and, consequently, more investments. More to the point, these factors combined with the fact that Kazakhstan joined World Trade Organization (hereafter WTO) in 2015 show how fast, compared to its neighbors, the country is growing, modernizing and

successfully collaborating with various countries and International Organizations. Kazakhstan, surely, has a great economic environment and potential for further progress of its national image. According to the Bloom Consulting Country brand ranking Republic of Kazakhstan holds 14<sup>th</sup> position among countries in Asian region (Bloom Consulting, 2020).

Kazakhstan is implementing different government programmes in order to develop certain sectors more, attract investments to particular projects that would result in the higher employment rate. For example, Business Roadmap 2025 is aiming to increase the share of small- medium enterprises (hereafter SME) by 35 percent (Kazakh TV, 2019). This government initiative is focused on making available the employment positions and keep a sustainable growth of regional entrepreneurship. More to the point this programme is also concentrated on the increase in tax revenues by about 2 times from the level of 2017, increasing the share of medium-sized businesses to at least 13.7 % (Business Roadmap, 2019).

In addition, there are currently 12 SEZ projects in operation in Kazakhstan and allow easier business processes for investors, they are: 'Astana, the New City' in Nur-Sultan (until 2027), 'Astana Technopolis' in Nur-Sultan (until 2042), 'Aktau Sea Port' in Aktau (until 1 January 2028), 'Ontustik' in Sairam district of South-Kazakhstan region (until 1 July 2030), 'National Industrial Petrochemical Park' in Atyrau region (until 31 December 2032), 'Park of Innovative Technologies' (until 1 January 2028), 'Saryarka' in Karaganda region (until 1 December 2036), 'Khorgos - the eastern gates' in Almaty region (until 2035), 'Pavlodar' in Pavlodar (until is 1 December 2036), 'Chemical Park Taraz' in Taraz (until 1 January 2037), 'International Center for Cross-Border Cooperation Horgos' in Almaty region (until is 1 January 2041), 'Turkestan' in Turkestan region (until 1 January 2043) (PWC, 2019).

### **Country Brand Image & Country Brand Perception**

Another significant milestone is to identify the main communication message and create the best possible communication strategy for Kazakhstan's brand awareness. This will represent the main idea of Kazakhstan as a nation and as a contemporary country that is attractive to various target audience: from businesses and executives to travelers and occasional visitors. In order to accomplish this step, it is essential to understand the communication flow before finding the appropriate strategy. The main steps of communication flow are: who sends the certain message; the channel, which is used to promote and send this message, and, who is the receiver of this message (in our case it would be investors, travelers, business people outside Kazakhstan) and fundamentally what effect this message should have on the targeted audience (Moore, 1994). In the case of Kazakhstan's national branding communication strategy, the desired effect would be to increase FDI to the country, and as a result to further develop economy and the ultimate aim will

be the promotion of Kazakhstan's positive brand image abroad. Marketing strategies are significant tools in the creation and maintaining of the brand and its image through the appropriate positioning of the said brand. In other words, identifying strengths, weaknesses, opportunities and threats of the certain brand and developing an effective marketing strategy that is able to support, develop and maintain the brand is what any communications team strives for. Communication is essential in the development and promotion of the brand, i.e. ensuring that the brand image is interpreted correctly (as was programmed in the strategy) and the marketing strategy reaches its target audience. In our days the digital economy of the contemporary time allows the use of social networks and media in order to build a perfect foundation for the leading brand image, and in our days the social media and platforms are the perfect tools that let you reach the target audience instantly and at mass and communicate your main message for free.

### **Brand strategy construction**

When it comes to the nation branding, one might state that competitive national identity – is one of the significant components of the successful brand, especially, in the globalized world. A country's development relies on the image, perception and reputation of the country. This mostly builds as a basis that helps attract investments, which leads to the development of government's economy and, consequently, to the growth of the country, which has its impact on the brand image of this country. It can be stated that Kazakhstan's effective brand image may allow the country to increase its development via speeding the process of establishing its reputation on the World arena as a stable economy, quickly modernizing nation. One might note that culture and values, such as tolerance and hospitality are the strong points of Kazakhstan that attract tourists and visitors and have a positive impact on the economic growth of Kazakhstan. In this regard Kazakhstan faces challenges , for example, weak infrastructure, lack of knowledge and education in the English language among the natives, consequently, repel foreign visitors, which leads to weak brand image. The extensive investigation and analysis of Kazakhstan's national and international challenges are vital in order to identify strengths, weaknesses, threats, opportunities and the environment for the advanced and improved brand. The national branding strategy would gain by identifying key places, regions with a high concentration of the potential investors, target audience with a higher ability of financial costs. For example, for some target audience Kazakhstan may be regarded as a Switzerland in Central Asia. Due to the fact that there are mountains and other natural beauties in Kazakhstan that would allow to position itself as a less luxury skiing resort in comparison with Switzerland, Austria etc.

### **Summary and conclusion**

This paper is based on the main points that would allow Kazakhstan further develop its National brand image, which would have a positive impact on FDI attraction. The establishment of a strong confident national brand would lead to the rise of Kazakhstan's voice and footmarks in attracting investment to the state and provide a clear message to the world regarding the openness of Kazakhstan to industries and businesses. A national brand that welcomes tourism, attracts new visitors to take a unique look at everything Kazakhstan has to offer for international visitors and tourists.

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# Accounting Conservatism and Real Earnings Management: Case of Developing Economy

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**Abstract:** *Earnings management (EM) has been thoroughly researched and discussed in accounting literature, ranging from methodological issues to its relationship with Corporate Governance (CG), Corporate Social Responsibility (CSR), Board of Directors (BOD) characteristics, political costs (PC), auditor efforts, stock price performance and so on. Despite that there is still a research gap in some areas, such as Real Earnings Management (REM), Income Smoothing (IS), or relationship between EM and accounting conservatism (AC).*

*This research paper aims to study the relationship between accounting conservatism and REM in the developing economy. It will review major concepts of AC and relate them to REM activities of companies. Analysis will be conducted based on sample of Russian companies listed on Saint-Petersburg Stock Exchange (SPSE). Outcomes of this study may be used by other researchers or potential companies' investors to improve their conceptual base or investment decision-making.*

**Keywords:** *Accounting Conservatism; Real Earnings Management.*

## 1. Introduction

### 1.1. Background

A firm has the incentive to engage in earnings management to meet analysts' forecasts ((Mulford and Comiskey, 2002) or its earnings target (Giroux, 2003), which misleads shareholders about its underlying performance (Healy and Whalen, 1999). Walker (2013) emphasizes two different types of EM: accrual-based earnings management (AEM) and real earnings management (REM).

AEM remains the most thoroughly researched area, starting from methodological issues, and ending with numerous publications on its relationship with different factors. REM activities has received less attention from accounting researchers. The most significant publications on REM (Graham et al., 2005; Gunny, 2005; Roychowdhury, 2006; Gunny, 2010; Zang, 2012; Walker, 2013) primarily explore methodological issues.

Such situation leaves an opportunity for continuing research in this area, e.g. by identifying possible effect of different factors / phenomena on REM, and vice versa, or using previous studies' methodology for exploring possible effects in different settings (replica research).

### 1.2. Motivation of Research

EM has been thoroughly researched for several decades, ending with thousands of published articles on its relationship with other phenomena such as CG, CSR, BOD characteristics, political

issues and other. Main methodological issues have been researched in USA (Healy, 1985; DeAngelo (1986, 1988); Jones, 1991; Dechow et al., 1995; Dechow and Dichev, 2002; Kothari et al., 2005; Graham et al., 2005; Roychowdhury, 2006; Gunny, 2010; Walker, 2013), and other popular areas - all around the world (including USA, Europe, Korea, China, Japan, Taiwan, Australia and many developing countries). Limited evidence is available from Russia and Kazakhstan (Goncharov and Zimmermann (2006, 2007); Memiş and Çetenak, 2012; Ahmed, 2013; Baimukhamedova and Baimukhamedova, 2015; Sundvik, 2017).

### **1.3. Contribution of Research**

Main motivation of this research is based on the following:

- There is almost no evidence from previous top-rated accounting literature (such as American Accounting Association (AAA), or European Accounting Review (EAR)) journals studying the relationship between AC and REM. Underlying reason why this topic was not popular in top-tier journals is that it may be quite challenging for thorough research;
- There is still limited evidence from other prior studies (Alarlooq et. al (2014), Langaroudi et. al (2015), Lara et. al (2015), Dunbar et. al (2017), Li (2018), Foroghi et. al (2018)), which concentrated on this issue;
- Majority of such studies originated from developing countries (e.g. Iran or India) and have been published in low-rating journals;
- Most of available studies on the relationship between AC and REM have been published in the period 2014-2019, suggesting that this is an emerging topic that could be possibly researched, and it may cover the existing research gap;
- Analysis may be conducted in new settings (e.g. based on data of companies listed on Moscow Stock Exchange (MSE) or Saint-Petersburg Stock Exchange (SPSE), giving additional evidence from developing economy (Russia).

Study may contribute to the body of knowledge on REM research by:

- examining effect of AC on REM in a new environment (developing market (Russia) in companies listed on Saint-Petersburg Stock Exchange (SPSE));
- exploring separately effects of conditional accounting conservatism (CAC) and unconditional accounting conservatism (UAC) on REM;
- building a REM research framework for other developing countries (such as Kazakhstan).

## **2. Literature Review**

### **2.1. Literature Review on Accounting Conservatism (AC)**

Basu (1997) in his work re-examined AC principle. He noticed that under AC "earnings reflect bad news (BN) more quickly than good news (GN)" (e.g., unrealized losses are recognized earlier than gains) and accountants in financial statements tend to verify recognition of GN more than for BN. Recognition asymmetry results in systematic differences between BN and GN periods in the timeliness (ET) and persistence of earnings (EP). Some of study's drawbacks is that it is relevant mostly to efficient markets where stock prices quickly and symmetrically reflect all publicly available news.

Brown et. al (2006) based on international sample examined whether CAC affects value relevance (VR) of earnings (VRE), and found that country-specific level of accrual intensity (AI) affects the

relationship between CAC and VRE (high AI resulted in positive relationship between CAC and VRE, but benefits of CAC have been lost when AI was low).

Gassen et. al (2006) concentrated on determinants of CAC, and effects of earnings attributes (EA) (UAC and income smoothing (IS)) on CAC and its international differences (affected by institutional regimes). Findings showed positive correlation between EA and CAC. Authors found weak correlation between such EA as CAC and IS (based on Basu (1997) regression), proving them to be different EA, affected by different explanatory company-level factors (importance of debt financing leads to increase in CAC, while importance of dividends leads to increase in IS). Other findings suggested that IS (and other accounting properties) may affect international differences in CAC.

Ryan (2006) developed an empirical guidance for researchers measuring/interpreting conditional accounting conservatism (CAC). Paper summarized CAC literature, discussed limitations of ATE, and provided 4 suggestions how to evaluate ATE and interpret it as a measure of CAC (incorporate industry context/industry-specific measures of news other than returns, incorporate business cycle and its effect on managerial incentives, control/don't control for other factors affecting ATE, filter returns to assess ATE).

Givoly et. al (2007) tested power and reliability of Basu (1997) DT measure (B97M) to reflect AC. Authors selected several information environment characteristics affecting B97M, but not related to AC. Results shown that B97M was sensitive to companies' disclosure policies, uniformity in news' content, and types of events in the examined period (should be recognized and controlled for). Negative relationship between B97M and alternative aspects of AC suggested not to rely exclusively on any single measure to evaluate overall AC.

Khan and Watts (2009) developed a company-year measure (MCC) of conditional AC (CAC) ( $C\_Score - \text{timeliness of BN/G\_Score} - \text{timeliness of GN}$ , to capture variation in AC from year to year, and to predict asymmetric timeliness of earnings (ATE)) up to 3 years ahead). They resolved some weak points of Basu (1997) model (B97) and extended it with cross-sectional regression coefficients extracted from B97, as a function of specific company's characteristics. Study showed that AC is higher in companies with long investment cycles, high idiosyncratic uncertainty (IU) and information asymmetry (IA).

Patatoukas and Thomas (2011) argued that Dietrich et al. (2007) and Givoly et al. (2007) found significant biases in Basu (1997) model (differential timeliness (DT) of CAC) as it is unexpectedly affected by 2 empirical regularities (unrelated to CAC) (scale negatively relates to deflated mean earnings and to variance of stock returns) with substantial and pervasive joint effect. In addition, prior time-series and cross-sectional variation' findings in DT are confounded by corresponding regularities' variation.

Hsu et. al (2012) based his research on Basu (1997) work, mainly on Basu coefficient (B97C) ("excess of sensitivity of accounting earnings to negative share return over its sensitivity to positive share return"), that was used as indicator of CAC. Authors raised a question that B97C may reflect factors unrelated to AC, resulting in loss of its validity. To examine this earnings may be disaggregated into components, and separately studying effect of CAC on them. Results showed that bigger part of B97C affected by CF from operations and investing activities (CFOI), indirectly reflecting AC, but remaining part of it may be affected by CAC. In addition, bias reported by Patatoukas and Thomas (2009) was found in all aggregate measures of earnings, mostly concentrating in CFOI component, and mostly not found in components likely to be affected by CAC.

Ball et. al (2013) study of CAC (ATE) is based on the prior work of Patatoukas and Thomas (2011) (PT11) who reported bias in company-level cross-sectional asymmetry estimates that they attributed to scale effects. Authors disagreed with PT11 recommendation to researchers to avoid CAC estimates and consequent inferences. They argued that explanation of such bias is correlated omitted variables (OV) problem that can be addressed e.g. with fixed-effects regression (when company-specific effects are analyzed, estimates do not show bias).

Dutta and Patatoukas (2017) analyzed construct validity of Basu (1997) asymmetric timeliness (AT) regression coefficient (ATRC) as a measure of CAC with help of financial reporting and valuation model. Authors found that ATRC is (+) even there is no CAC, and it will fluctuate with non-accounting factors even if CAC is constant. ATRC will rise with expected returns and returns' distribution asymmetry, and will drop with CF persistence. They offered spread between variances of BN and GN accruals as an alternative measure of CAC free from effects confounding ATRC. Findings also demonstrated that variance of BN accruals was much bigger than variance of GN accruals, mostly because of conditionally conservative accruals that were related to write-downs of inventory and LTA, and goodwill impairments.

## **2.2. Literature Review on Real Earnings Management (REM)**

Roychowdhury (2006) (R06) developed empirical methods for detecting REM by offering a 3-component REM model (decrease in OCFs through sales discounts/flexible credit terms to increase sales/earnings; decrease in discretionary expenses (DE) (R&D, SG&A and advertising) to increase earnings/current CFs; increase in operating costs (inventory production) to decrease COGOS/increase earnings) for non-financial sectors based on Dechow (1995) model. R06 does not eliminate completely problem of omitted variables, and is unsuitable for extremely small/large samples.

Gunny (2010) in her paper investigated the extent to which REM: (1) is associated with companies just meeting earnings benchmarks, (2) affects subsequent operating performance. Author studied 4 different types of REM: decrease in discretionary (1) R&D or (2) SG&A to decrease expenses, (3) FA sales to report gains, (4) price discounts/more attractive credit terms to increase sales, and /or overproduction to decrease COGS.

Zang (2012) examined if managers use REM and AEM as substitutes in earnings manipulations. Results demonstrated that there is trade-off between these EM methods depending on their relative costs. Managers corrected AEM levels according to REM levels realized, and these methods were used as substitutes.

## **2.3. Literature Review on the Relationship between Accounting Conservatism and EM/REM**

There is almost no evidence from top-tier accounting journals on researching this topic due to its potentially high complexity. Such authors as Alarlooq et. al (2014), Babazadeh and Salteh (2014), Karami et. al (2014), Lin et. al (2014), Langaroudi et. al (2015), Lara et. al (2015), Dunbar et. al (2017), Li (2018), Foroghi et. al (2018) and Mahardhika and Fitriana (2019) have tried to research this area, often reporting contradictory results.

## **3. Hypothesis Development.**

Potential hypotheses for this study may be defined as following:

**H1:** Accounting Conservatism (AC) is positively related to REM practices in Russian companies.  
**H2:** AC is correlated with subsequent company EM practices.

## **4. Methodology and Data.**

### **4.1. Research Methodology**

Research methodology will be based on prior studies on accounting conservatism and real earnings management discussed in the Literature Review section.

For conducting primary analysis the following methods can be applied:

- ordinary least squares (OLS) regression method;
- 2 stages least squares (2SLS) method;
- GMM (generalized method of moments).

Issues of endogeneity should be additionally considered.

### **4.2. Data Collection**

Empirical study will use archival data of Russian non-financial companies:

- listed on Saint-Petersburg Stock Exchange (SPSE) (<http://spbexchange.com/>) (may be time-consuming due to manual sampling),
- obtained from Bloomberg Research Database (<https://www.bloomberg.com/professional/product/research/>),
- obtained from Thomson Reuters database (if available).

Sample period may include 10-15 year horizon (e.g. 2010-2020 or 2005-2020).

## **5. Expected Findings.**

Research study is expected to test hypotheses and find answers for the following research questions:

- Does accounting conservatism positively affects REM practices in Russian companies?
- Does accounting conservatism correlates with subsequent company REM practices?

## **6. Conclusions.**

Selected topic on the relationship of Accounting Conservatism and Real Earnings Management may be very interesting to research, as there is very limited number of studies devoted to this issue, with some of them reporting contradictory results.

The main problem may be how to connect accounting conservatism to REM? This connection looks challenging because they can be jointly determined.

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## **Title: Labour Market policies and Gender inequality in Kazakhstan**

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**Abstract:** Women participation in labour market and formal workforce contribute substantially in economic growth and development of national as well as global economies. However, despite numerous initiatives by government and private sector organizations, women still suffer some forms of discrimination and disadvantage in the formal labour markets, and consequently women participation in the formal labour market is comparatively low. At the macro level factors, labour market policy seems to create some barrier in women participation in formal labour market and hinder their career development opportunities. To overcome these gender related disadvantages, governments in different countries developed different policy measures to increase women participation in labour market, and were quite successful to some extent. However, researchers argued for more policy initiatives to eradicate gender discrimination and to provide more opportunities to women for increased participation in formal labour market and career development. In this paper, we will look into research evidence how traditional assumptions of women's unpaid work in home affected their labour market positions and opportunities in different areas such as participation in labour market, concentration on different types of jobs, occupational segregation in workplaces, gender pay gaps, and accommodation of work-family conflict issues in Kazakhstan. Based on empirical evidence from other countries, the paper will propose some policy recommendations to improve further gender inequality in Kazakhstan.

**Keywords:** Gender inequality, labour market, national culture, Kazakhstan.

# AN OVERVIEW OF MANAGERIAL COMPETENCIES OF FEMALE MANAGERS IN THE KAZAKH CONSTRUCTION INDUSTRY

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## Abstract

This conference paper discusses an overview study into the female manager's competencies, which hold relatively few project management positions in the construction industry. Most studies conclude that women's exclusion from the industry is mostly due to the industry's male-dominated culture, but no study ever attempted to find out whether women are excluded from project management positions in construction because they are deficient in managerial competencies. This study evaluates the managerial competencies of female project managers by administering a competency assessment test and comparing the results with the managerial competencies of male project managers. The study concluded that female project managers do not differ much from male project managers in terms of their managerial behaviors but perform better in "sensitivity," "customer focus," and "authority and presence." (David Arditi and Gulsah Balci, [https://ascelibrary.org/doi/abs/10.1061/\(ASCE\)CO.1943-7862.0000100](https://ascelibrary.org/doi/abs/10.1061/(ASCE)CO.1943-7862.0000100), Retrieved January 4, 2020)

There are several reasons for the uneven distribution of women and men across sectors of the economy. In this vein, the choice of activity is taken by many women in favor of more flexible in terms of a combination of work and family responsibilities. Gender stereotypes also affect professional self-determination and career development. However, the Asian Development Bank reports that deficiencies in basic services and the burden of household work on rural women are considerable obstacles to their economic engagement. (ADB, Kazakhstan Country Gender Assessment, Retrieved January 5, 2020)

The purpose of this paper is to report on the findings of a needs assessment study of Kazakhstan women-owned enterprises managers in construction. The study was done in preparation for the rolling out of an empowerment initiative country-wide in Kazakhstan, building on the lessons learnt and recommendations from the current and previous studies. An extensive review of relevant literature was used to develop a survey instrument and guide the stakeholder workshops to establish the needs of women-owned manager's contractors in Kazakhstan.

**Keywords:** Management, managerial competence, Kazakhstan, women.

## **Introduction**

In construction industry women hold relatively few managerial and project management positions in the construction industry. Most studies conclude that women's exclusion from the industry is mostly due to the industry's male-dominated culture, but no study ever attempted to find out whether women are excluded from project management positions in construction because they are deficient in managerial competencies. This study evaluates the managerial competencies of female project managers by administering a competency assessment test and comparing the results with the managerial competencies of male project managers. The management development questionnaire was used, where competency is defined by subjective comparison. All respondents occupied project management positions and were assessed in 20 different competencies. The study concluded that female project managers do not differ much from male project managers in terms of their managerial behaviors but perform better in "sensitivity," "customer focus," and "authority and presence."

## **Problem and Objective**

Moreover, the study explores the level of support Kazakhstan female owners and managers received from governmental institutions, non-governmental institutions and social networks (i.e. family, relatives, entrepreneurs meeting face-to-face to obtain advice, service and moral supports). The comparison would also include their motivation to start-up as managers of business, type of industry, management knowledge, financial opportunities and marketing skills; and the effect of gender on time invested in running the business and managerial practices in Kazakhstan context.

The term "competency" has not been clearly defined in the literature. Two main meanings of the term have been identified, one referring to the outputs, or results of training that is, competent performance. The other definition referring to the inputs, or underlying attributes, required of a person to achieve competent performance. Each definition has been used to describe both individual and organizational competencies. A typology of the meanings of competency has been developed to show that the term has several meanings depending on the purpose for which it is used. The implications developed in this paper are directed toward reducing the confusion over the meaning of the term competency. (Hoffmann, T. (1999), "The meanings of competency", *Journal of European Industrial Training*, Vol. 23 No. 6, pp. 275-286. <https://doi.org/10.1108/03090599910284650>, Retrieved January 8, 2020)

## **Literature Review**

Females as managers and entrepreneurs in Kazakhstan have traditionally been considered a man's realm; more and more Kazakh women turn to business, however, as a source of income or even sometimes a hobby. According to the latest statistical data, women in Kazakhstan run more than 50 percent of small and medium-sized enterprises (SMEs) and approximately 66 percent of sole traders are women. The current female contribution to the Kazakh GDP is nearly 40 percent, a figure that is expected to increase. McKinsey & Company, a worldwide management consulting firm, estimates if women had equal opportunities to men in running businesses, the global GDP would go up by \$28 billion by 2025. (Ministry of National Economy of the Republic of Kazakhstan Statistic committee, <https://stat.gov.kz/>, Retrieved January 7, 2020)

Levels of female entrepreneurship are also influenced by differences across countries in terms of women's freedom to work and travel due to traditional family and religious norms (Elam, 2008; Terjesen and Elam, 2012) other important institutions which impact female managers include equal legal rights, access to education, networks, technology, capital, social norms, values, and expectations. Furthermore, the overall construction business environment in terms of laws, regulations, and business stability will affect businesses' ability to thrive and grow. (Elam, 2008; Terjesen and Elam, 2012. Terjesen and others published Women female entrepreneurship, Retrieved January 8, 2020)

Women managers play a substantial role in growing their economies, when a country does not achieve its full potential, the economy suffers. Fewer 'high potential' female managers result in fewer ideas being realized, less innovation, less export potential, and fewer jobs created. Through their managerial activities, high-potential female managers increase their own economic welfare, and also improve the economic and social fabric of society through job creation, innovative products, processes, and services, and cross-border trade. (Female Entrepreneurship in Latin America, Terjesen and Amorós, 2010)

## **Research Methodology**

While the use of term "performance" is firmly entrenched in mainstream project management practice, the terminology often takes different meanings depending on the context in which it is used. Traditionally, the terminology has been used to represent the result of "activities" and also to describe an individual and/or a system being effective and/or efficient. Furthermore, in the recent past, the term has been widely used in association with numerous attributes such as productivity, quality, profitability and growth making it more difficult to relate well to its meaning. Motowidlo SJ, Borman WC, Schimt JM. individual differences in task and contextual performance behaviours. *J Human Perform* 1997;10(2):71–83),( Yasamis F, Arditi D, Mohammadi J. Assessing contractor quality performance. *Construct Manage Econ* 2002;20:211–23),( McCloy RA, Campbell JP, Cudeck R. A confirmatory test of a model of performance determinants. *J Appl Psychol* 1994;71(4):493–505),( Thamhain J. Integrating project management tools. 29th annual project management institute 1998

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The term “‘competency’” is often used indiscriminately as a synonym to competence and vice versa. However, it is now understood from recent debates amongst researchers that there are in fact conceptual and practical distinctions in understanding how the terminology is interpreted. Accordingly, in mainstream project management practice, there is now some compelling consensus that the terminology best describes the personal attributes that individuals draw upon as part of their work activities as against competence which relates to a person’s ability to comply to a range of externally agreed standards (e.g. output-based measures. Subsequently, here, the term competency is defined as a person related concept that refers to the dimensions of behavioral action underlying competent performance. (Dainty ARJ, Cheng MI, Moore DR. competency-based performance model for construction project managers. *Construct Manage Econ* 2004;22:877–86),( Cheng MI, Dainty ARJ, Moore DR. What makes a good project manager? *Human Resource Manage J* 2005;15(1):25– 37),( Tett RP, Guterman HL, Bleier A, Murphy PJ. Development and content validation of a hyperdimensional taxonomy of managerial competence. *Human Perform* 2000;13(3):205–51),( Cheng MI, Dainty ARJ, Moore DR. The differing faces of managerial competency in Britain and America. *J Manage Develop* 2003;22(6):527–37, Retrieved January 8, 2020

## **Data Analysis and Findings**

According to estimates of the International Monetary Fund, the world economy loses from inequality between women and men from 10% of GDP in developed countries to 30% in South Asia, the Middle East and North Africa. In addition, the study shows that increasing the participation of women in the workforce significantly increases the rate of economic growth and the welfare of the country. In this vein, with the increase in number of women participating in the labor force in Europe and Central Asia, economic well-being increases by about 1%. (Kochhar, Kalpana, Sonali Jain-Chandra, and Monique Newiak, eds. *Women, Work, and Economic Growth*. Washington, DC: International Monetary Fund. 2017),( Ostry, Jonathan D., Jorge Alvarez, Raphael Espinoza, and Chris Papageorgiou. “Economic Gains from Gender Inclusion: New Mechanisms, New Evidence.” IMF Staff Discussion Note 18/06, International Monetary Fund, Washington, DC. 2018, Retrieved January 12, 2020

In Kazakhstan, the participation rate of women in the economically active population in 2018 was 64.8%, which is 11.1 percentage points lower than among men. Moreover, the gap in the level of economic activity and employment tends to narrow down – the indicator in 2014 was 12.3 and 11.9 percentage points.

## **Summary**

This concluding chapter highlights the various female managerial competencies concepts, themes, and issues rose regarding the role of female leaders in the field of construction they face in culture of Kazakhstan. It concludes by considering five managerial competencies: the managing

change; planning and organizing, interpersonal skills, results orientation and leadership; their methods of implementation and importance to female managers in construction.

## **Conclusion**

Female hold moderately barely any undertaking managerial positions in the construction development business. Most examined reason that female rejection from the construction business is for the most part because of the business' male-overwhelmed culture, yet no investigation at any point endeavored to see if ladies are prohibited from construction business positions in development since they are inadequate in administrative capabilities. This study assesses the managerial capabilities of female managers by controlling a competency evaluation test and contrasting the outcomes and the administrative abilities of male undertaking supervisors.

## **Recommendations**

Future research is recommended to further understand how to enhance managerial competencies of female managers and to start venture efficacy and career expectations in construction industry affect the decision to start for new female manager's work in a particular industry. Further focusing on the concept of managerial incorporating competencies of organizing and planning, innovation, enforcement/implementation, leadership and interpersonal skills in relationship between these different types of female manager competencies and performance.

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Siri Terjesen and José Amorós Espinosa; 2010 female entrepreneurs in Latin America, *Research*, 2010, vol. 22, issue 3, Retrieved January 10, 2020

# AN OVERVIEW OF MANAGERIAL COMPETENCIES OF PROJECT MANAGERS WORKING IN KAZAKH CONSTRUCTION INDUSTRY

Kalikan Rahman, EMBA, ID#20142402

## Abstract

This conference paper discusses an overview study into the male project manager's competencies which hold relatively few project management positions in the construction industry. Most studies conclude that male's exclusion from the industry is mostly due to the industry's overload of male-dominated culture, but no study ever attempted to find out whether male are excluded from project management positions in construction because they are deficient in managerial competencies. This study evaluates the managerial competencies of male project managers by administering a competency assessment test and comparing the results with the managerial competencies of male project managers. Male project managers in Kazakhstan do not differ much from other country's male project managers in terms of their managerial behaviors but perform better in "sensitivity," "customer focus," and "authority and presence." (David Arditi and Gulsah Balci, [https://ascelibrary.org/doi/abs/10.1061/\(ASCE\)CO.1943-7862.0000100](https://ascelibrary.org/doi/abs/10.1061/(ASCE)CO.1943-7862.0000100), Retrieved January 20, 2020)

There are several uneven distribution of jobs for men across sectors of the Kazakh economy. In this time, the choice of activity is taken by many men in favor of more flexible in terms of a combination of work and social responsibilities. Male domination stereotypes also affect professional self-determination and career development. However, the Asian Development Bank reports that deficiencies in basic services, resources and the burden of family and work on rural men are considerable obstacles to their economic engagement. (ADB, Kazakhstan Country Gender Assessment, Retrieved January 15, 2020)

The purpose of this paper is to report on the findings of a needs assessment study of Kazakhstan construction enterprises project managers. The study was done in preparation for the rolling out of an empowerment initiative country-wide in Kazakhstan, building on the lessons learnt and recommendations from the current and previous studies. An extensive review of relevant literature was used to develop a survey instrument and guide the stakeholder workshops to establish the needs of men project manager's contractors in Kazakhstan.

**Keywords:** Project management, managerial competency, Kazakhstan.

## Introduction

In construction industry men hold relatively few managerial and project management positions in the construction industry, but previous study attempts finds out that men are excluded from project management positions in construction because they are deficient and lacking skills in managerial competencies. This study evaluates the managerial competencies of male project managers by administering a competency assessment test and comparing the results with the managerial competencies of male project managers. The study concluded that male project managers do not differ much from other countries male project managers in terms of their managerial behaviors but perform better in “sensitivity,” “customer focus,” and “authority and presence” working inside Kazakhstan.

## **Problem and Objective**

Moreover, the study explores the level of support Kazakhstan male project managers received from governmental institutions, non-governmental institutions and social networks (i.e. finance, relatives, resources, entrepreneurs meeting face-to-face to obtain advice, service and moral supports). The comparison would also include their motivation to start-up as managers of construction business, type of industry, management knowledge, financial opportunities and marketing skills; and the effect of gender on time invested in running the business and managerial practices in Kazakhstan context.

The term “competency” has not been clearly defined in the literature. Two main meanings of the term have been identified, one referring to the outputs, or results of training that is, competent performance. The other definition referring to the inputs, or underlying attributes, required of a person to achieve competent performance. Each definition has been used to describe both individual and organizational competencies. A typology of the meanings of competency has been developed to show that the term has several meanings depending on the purpose for which it is used. The implications developed in this paper are directed toward reducing the confusion over the meaning of

the term competency. (Hoffmann, T. (1999), "The meanings of competency", *Journal of European Industrial Training*, Vol. 23 No. 6, pp. 275-286. <https://doi.org/10.1108/03090599910284650>, Retrieved January 18, 2020)

## **Literature Review**

Male as project managers and contractor entrepreneurs in Kazakhstan have traditionally been considered a man’s realm; however, as a source of income or even sometimes a hobby, according to the latest statistical data, men in Kazakhstan run more than 90 percent of small and

medium-sized enterprises (SMEs) and approximately 66 percent of sole traders are women. The current male contribution to the Kazakh GDP is nearly 91 percent, a figure that is expected to increase. McKinsey & Company, a worldwide management consulting firm, estimates if men had more equal opportunities like other world men in terms of finance, skills and running businesses, the global GDP would go up by \$28 billion by 2025. (Ministry of National Economy of the Republic of Kazakhstan Statistic committee, <https://stat.gov.kz/>, Retrieved January 17, 2020)

Levels of male entrepreneurship are also influenced by differences across countries in terms of freedom to work and travel due to traditional family and religious norms (Elam, 2008; Terjesen and Elam, 2012) other important institutions which impact male project managers include equal legal rights, access to education, networks, technology, capital, social norms, values, and expectations. Furthermore, the overall construction business environment in terms of laws, regulations, and business stability will affect businesses' ability to thrive and grow. (Elam, 2008; Terjesen and Elam, 2012. Terjesen and others published male entrepreneurship, Retrieved January 19, 2020)

Men project manager play a substantial role in growing their economies, when a country does not achieve its full potential, the economy suffers. Fewer 'high potential' male project managers result in fewer ideas being realized, less innovation, less export potential, and fewer jobs created. Through their managerial activities, high-potential male managers increase their own economic welfare, and also improve the economic and social fabric of society through job creation, innovative products, processes, and services, and cross-border trade. (Male Entrepreneurship in Latin America, Terjesen and Amorós, 2010)

## **Research Methodology**

While the use of term "performance" is firmly entrenched in mainstream project management practice, the terminology often takes different meanings depending on the context in which it is used. Traditionally, the terminology has been used to represent the result of "activities" and also to describe an individual and/or a system being effective and/or efficient. Furthermore, in the recent past, the term has been widely used in association with numerous attributes such as productivity, quality, profitability and growth making it more difficult to relate well to its meaning. Motowidlo SJ, Borman WC, Schimt JM. individual differences in task and contextual performance behaviours. *J Human Perform* 1997;10(2):71–83), Retrieved January 20, 2020

The term "competency" is often used indiscriminately as a synonym to competence and vice versa. However, it is now understood from recent debates amongst researchers that there are in fact conceptual and practical distinctions in understanding how the terminology is interpreted.

Accordingly, in mainstream project management practice, there is now some compelling consensus that the terminology best describes the personal attributes that individuals draw upon as part of their work activities as against competence which relates to a person's ability to comply to a range of externally agreed standards (e.g. output-based measures. Subsequently, here, the term competency is defined as a person related concept that refers to the dimensions of behavioral action underlying competent performance. (Dainty ARJ, Cheng MI, Moore DR. competency-based performance model for construction project managers. *Construct Manage Econ* 2004;22:877–86),( Cheng MI, Dainty ARJ, Moore DR. What makes a good project manager? *Human Resource Manage J* 2005;15(1):25– 37),( Tett RP, Cheng MI, Dainty ARJ, Moore DR., managerial competency in Britain and America. *J Manage Develop* 2003;22(6):527–37, Retrieved January 28, 2020)

## **Data Analysis and Findings**

According to estimates of the International Monetary Fund, the world economy loses from inequality between women and men from 10% of GDP in developed countries to 30% in South Asia, the Middle East and North Africa. In addition, the study shows that increasing the participation of men in the workforce significantly increases the rate of economic growth and the welfare of the country. In this vein, with the increase in number of men participating in the labor force in Europe and Central Asia, economic well-being increases by about 1%. (Kochhar, Kalpana, Sonali Jain-Chandra, and Monique Newiak, eds. *Women, Work, and Economic Growth*. Washington, DC: International Monetary Fund. 2017),( Ostry, Jonathan D., Jorge Alvarez, Raphael Espinoza, and Chris Papageorgiou. "Economic Gains from Gender Inclusion: New Mechanisms, New Evidence." IMF Staff Discussion Note 18/06, International Monetary Fund, Washington, DC. 2018, Retrieved January 24, 2020

In Kazakhstan, the participation rate of women in the economically active population in 2018 was 64.8%, which is 11.1 percentage points lower than among men. Moreover, the gap in the level of economic activity and employment tends to narrow down – the indicator in 2014 was 12.3 and 11.9 percentage points.

## **Summary**

This concluding chapter highlights the various male managerial competencies concepts, ideas, and issues rose regarding the role of male project managers in the field of construction they face in culture of Kazakhstan. It concludes by considering five managerial competencies: the managing change; planning and organizing, interpersonal skills, results orientation and leadership; their methods of implementation and importance to male project managers in construction.

## **Conclusion**

Male hold moderately barely any undertaking project managerial positions in the construction development business. Most examined reason that male diversion from the

construction business is for the most part because of the business' male-overloaded culture, yet no investigation at any point endeavored to see if men are prohibited from construction business positions in development since they are inadequate in administrative capabilities. This study assesses the managerial capabilities of male project managers by controlling a competency evaluation and contrasting the outcomes and the administrative abilities of male undertaking supervisors and project managers.

## **Recommendations**

Future research is recommended to further understand how to enhance managerial competencies of male project managers and to start building venture efficacy and career expectations in construction industry affect the decision to start for new male project manager's work in a particular industry. Further focusing on the concept of managerial incorporating competencies of organizing and planning, innovation, enforcement/implementation, leadership and interpersonal skills in relationship between these different types of male project manager competencies and performance.

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# THE INFLUENCE OF LEADERSHIP SKILLS ON ORGANIZATIONAL MANAGEMENT IN CASE OF OJSC “KAZMUNAIGAS’

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## **Introduction and objective:**

The aim of the master thesis was to find out the influence of leadership on organizational management. The main objectives of the study were to find out the concepts and types of leadership and investigate the influence of leadership on organizational management in the case company OJSC “KazMunaiGas”.

The research also described the management of the organizations in service sector because of the good leadership qualities. The leadership theories and different skills of leadership were discussed in the beginning of the research. Both the qualitative and quantitative research method was used in the study. Empirical study was conducted by sending a questionnaire to the employees of OJSC “KazMunaiGas”.

Oil for Kazakhstan is a key symbol of stability, which, prospects of the government and society is connected. Today the oil and gas branch positively promotes diversification of economy.

Currently export of oil allows Kazakhstan to expand communications, to adjust globalization processes concerning export and import of oil. The paper analyzes the trends in the oil industry both world market and in Kazakhstan. It covers oil market situation in the international arena including oil demand, oil supply, price, and current oil problems and perspective in Kazakhstan.

The master thesis analyzes influence of leadership skills on organizational management in “KazMunaiGas”.

KazMunaiGas Exploration Production JSC is the largest Kazakhstan oil and gas company listed on the Kazakhstan and London Stock Exchanges and one of the top oil producers in Kazakhstan.

The results driven from the research showed that there is a strong impact of leadership skills on organizational management. The leadership skills “KazMunaiGas” with the employees of the company was one of the major reasons for the company’s success. Finally leadership skills were found out to be very important key factors for the growth of the companies in the service sectors. An organization is a social set up, which has a boundary that separates it from its environment, pursues its own collective goals, and controls its own management (Hicks and Gullet, 1975). In a formal organization, interactions are rationally coordinated and directed through time on a continuous basis. The person at the helm of affairs is usually the leader.

Kraines (2001 ) stressed that the word leadership has been used by most disciplines: political science, business executives, social workers and educationist. However, there is large disagreement as regards the exact meaning.

This view was also supported by Taffinder (2006 , pg 6 ), who gave different definitions to leadership: “a simple meaning: leadership is getting people to do things they have never thought of doing, do not believe are possible or that they do not want to do”. With reference to an organization, he defined leadership as “the action of committing employees to contribute their best to the purpose of the organization”. While on a complex and more accurate view, he explains that you only know leadership by its consequences – from the fact that individuals or a group of people start to behave in a particular way as a result of the actions of someone else”.

It is important to distinguish between leadership as an organization function and as a personal quality. According to Bowery ( 2004 ) the later entails special combination of personal characteristics, which brings to light qualities and abilities of individuals. The former refers to the distribution of power through out an organization and it brings to focus the pattern of power and authority in the organization.

Defining leadership in it various reflections is very important. However, it is necessary to buttress what our focus is when any of its definition is referred to and under what condition.

Previous views about leadership show that it is seen as a personal ability. However, Messick and Kramer ( 2004 ) were of the opinion that the degree to which individuals’ exhibits leadership depends not only on his characteristics and personal abilities, but also on the characteristics of the situation and environment in which he finds himself.

Messick and Kramer (2004 ) further explained that since human beings could become members of an organization in order to achieve certain personal objectives, the extent to which they are active members depends on how they are convinced that their membership will enable them to achieve their predetermined objectives. Therefore an individual will support an organization if he believes that through it, his personal objectives and goals could be met, if not the person’ s interest in the organization will decline.

### **Research aim and questions:**

- 1 How might leadership skills help management enhancement by applying management philosophies?
- 2 How will organizational culture enhance organizational management?
- 3 What is the impact of leadership skills on organizational management?

4 Is there any relationship between transformational and transactional leadership skills and outcomes of satisfaction, extra effort, and effectiveness?

The main research aim is approached and answered by the following sub- research objectives.

- to study influence leadership skills on organizational management;
- to study the concept and types of leadership b skills
- to study the conceptualization and different measures of organization management
- to study the impact of leadership skills on organizational management
- to investigate the impact of leadership skills on organizational management in the case JSC KazMunaiGas EP;
- to evaluate the relationship between various leadership skills and organizational managements;
- to study theoretical bases an explanation of infrastructure of the market, its form and methods;
- to analyze the main directions of marketing strategy of JSC KazMunaiGas EP;
- to reveal a place and a role of oil branch of the Republic Kazakhstan in the world oil market;
- to study of marketing strategy of international oil companies such as Shell, Chevron and so on;
- to analyze the external and internal JSC KazMunaiGas EP environment, using methods: "5 force" M. Porter, SWOT analysis, PEST analysis, an also financial indicators;
- to analyze financial statement of JSC KazMunaiGas EP;
- to offer recommendations on improvement of marketing strategy of JSC KazMunaiGas EP.

Also this study will look at how leaders may help increase organizational management. The following objectives need to be investigated in order to fulfill the aim of this research:

1. Definition of leadership and its role and organizational management.
2. Analysis of efficiency, effectiveness, and productivity in organizations.
3. Evaluation of the current organizational culture

### **Research question**

In order to accommodate the research objective, it is first essential to gain a profound understanding of the fundamental approaches and the underlying assumptions of both the traditional leadership skills theory and organizational management theory.

It is also necessary to have a clear understanding of oil market, oil price dynamics and development. The thesis will therefore answer the following sub-questions:

- What are the main theoretical perspectives of price formation within mainstream economics?

-What are the main factors to influence the oil price and how does the recent oil price development differs from previous shocks in the oil market?

-To what extent can the theoretical approaches be used when analyzing the oil price development in the period from 2014 – 2019 in particular?

-How marketing strategy of JSC KazMunaiGas EP is working at international market?

-How to identify the potential factors that impact the strategic marketing to achieve the goal of JSC KazMunaiGas EP?

-What kind of challenges faces JSC KazMunaiGas EP during the implementing marketing strategy?

-What instruments does company use to achieve its financial, business and marketing objectives?

#### 1.4. Research methods

The research can be divided into two parts.

Consequently, also two main research methods, literature review and analysis, and statistical analysis can be used to solve the research question.

The problem and answer the research questions.

#### **Literature Review**

As the intention of the research is to analyze and potentially confirm certain theory-basing causal relationships between companies' marketing resources, business orientations and business performance, it was rational to choose literature review as a preliminary research method.

In this research, qualitative methods of research can be used in order to draw an analysis of the proposed area of research.

One of the qualitative approaches is that its research methods will use different methods and strategies.

As the research will analyze the financial and organizational analysis of JSC KazMunaiGas EP, the approach of qualitative methods present is what is demanded in order to be closer to what is being investigated.

Constructionist and interpretive features of qualitative analysis is very crucial in this situation because policies are socially constructed and proceed by research. Words, their interpretation is essential in qualitative analysis.

However, sometimes it is impossible to find out everything needed by using only one approach, the combining of approaches can increase the scope, depth and power of research. Within this framework, as ‘quantitative research emphasizes quantification and numbers in the collection and analysis of data and qualitative research emphasizes words’ , using both of the methods will enable us to utilize their advantages to make better research and analysis on the relevant issue and to avoid the disadvantages.

For example, when examining policy-making as a process and as a subject to change over time, qualitative method is helpful with its ‘procession’ aspect, and when structural and statistic features of social life and institutions is in focus quantitative approach is useful.

Thesis design is defined as ‘framework for the collection and analysis of data.

As I made decision to choose in order to mention a particular area, case study is the most valuable research design in this research.

Experiences of JSC KazMunaiGas EP regarding marketing strategy and brand will be deeply analyzed as an empirical examination that ‘investigates a contemporary phenomenon within its real-life context, while the boundaries between case and context are not clearly evident and in which multiple sources of evidence are used.

It is important to mention that the dynamics of development of JSC KazMunaiGas EP in the context of financial statement will be applied in research in order to specify profitability of company and more comprehensively research the narrowed field.

In the research will be investigated JSC KazMunaiGas EP company versus other companies to make strong analysis.

Special regulation concerning activity of JSC KazMunaiGas EP in different area of brand states that the important motivation for using the experiences of other international oil companies such as Shell, chevron and so on is to get deeper and full understanding of a specific case, taking into account the context of development of marketing strategy.

In studying a specific issue, case studies are more an overall research strategy than a method, since a case study can employ a number of different methodologies such as interviews, content analysis and so on.

As practical and theoretical experience of JSC KazMunaiGas EP will be examined within the context of broader marketing strategy, here the holistic focus of case study, aiming to preserve and understand the wholeness/unity of the case is very appropriate.

This research represents mostly intrinsic elements where to get better understanding of the particular issue, and to some extent instrumental case study to give insight into an issue, may be to refine a theory.

It is often asked how the results of one single case study can be generalized to all other ones. If the objective of research is not to generalize the findings, this is not a problem. There are now serious debates on how of JSC KazMunaiGas EP marketing strategy can be formulated.

JSC KazMunaiGas EP proposes that apart from being a unique on its own right, cases can be generalized by developing theoretical propositions out of its findings. Whether a case study should seek to generalize, depends on the context and purpose of particular study.

However, research does not intend to generalize the findings of case to other marketing policies; purpose is to generate an intensive exploration of a single case, so it is not the concern of this research.

The reason of choosing marketing strategy of JSC KazMunaiGas EP as a case among the other famous companies areas is related to its increasing importance through investigation of marketing strategy and to its being very new issue on of JSC KazMunaiGas EP agenda.

The claim that the crude market is one globalized pool is backed up by arbitrage theory. Several empirical papers (see e.g. Hamilton, 2008; Fattouh, 2011) as well as theoretical papers (see e.g. Schwarz & Szakmary, 1994); [3]

Their results indicate that the world crude oil market, in the long run, is a large integrated market where prices co-move.

These results imply that price differences between crude oils should reflect quality differences and transportation costs in the long run.

The recent divergence between WTI and Brent has, at least in the short term, disproved this theory, and I therefore examine the factors behind the divergence.

### **Statement of Problem**

The phenomenon of globalization has made the concept of leadership in organizations become a very vital issue especially in developing countries; since a great amount of daily competition pressures small companies to compete not only locally, but also with adjacent market competitors. As a result, companies need to develop their and the ability of their leader skills to have a more compatible company in the global competition. One of the ways to have a compatible company is to be considered as a productive and high management company. There are many issues playing a role in reaching that stage which a leader must deal with. Those elements are as follows: organizational culture, employee empowerment, leaders' charisma, and employee motivation and

so on which have direct impact on employee satisfaction, effectiveness, and extra effort which are key elements of organizational management.

The purpose of this master thesis is to demonstrate how leadership skills can help organization to maintain high management in existing markets in OJSC “KazMunaiGas”.

## **Conclusion**

1) First of all, we determined the research aim and questions, research methods, conducted literature review, determined the statement of problem and the research methodology and research data.

2) Then, we found the definition of Leadership, difference of leadership and management, determined different styles of leadership, transformational and transactional leadership, transformational leadership characteristics, transactional leadership, the area of difference in transformational and transactional leadership, the impact of leadership on organizational performance.

3) We also conducted the analysis of company OJSC “KazMunaiGas”. We studied the history of the company, have done overview of activity “KazMunaiGas” Exploration Production: mission, state, studied oil production of JSC “KazMunaiGas” EP, conducted the financial analysis of JSC “KazMunaiGas” EP and the analysis of JSC “KazMunaiGas”: SWOT, PEST and Porter’s, studied the oil market of the Republic Kazakhstan: problems and prospects.

4) Finally, we determined problems and perspectives of influence of leadership skills on organizational management in case of OJSC “KazMunaiGas”, analyze the influence of leadership skills on organizational management in case of OJSC “KazMunaiGas” and problems influence of leadership skills on organizational management in case of OJSC “KazMunaiGas”, studied the perspective influence of leadership skills on organizational management in case of OJSC “KazMunaiGas”.

Although leadership is an essential ingredient in effective management, effective leaders do not always become effective managers.

A leader succeeds only if he is able to influence other people, and, of course, sometimes effective leadership interferes with formal organization.

Management can be defined as a mental and physical process in which subordinates fulfill their formal duties prescribed by them and achieve specific goals.

A manager becomes a manager as a result of the conscious action of a formal organization, i.e., the granting of authority to him. And leaders do not become the will of the organization, although the ability to lead and lead can be enhanced by delegation of authority. People in the organization always know who their manager is, but often do not realize that someone is leading

and leading them. Finally, leaders are not limited by authority and structural boundaries. Often, the manager is the leader of people who are not connected with him in any way, if he talks about his position in the organizational hierarchy. Sometimes even situations arise when subordinates lead senior officers.

Leadership is the ability to influence individuals and groups, directing them to achieve organizational goals. Each manager depends on his immediate boss, subordinates and colleagues. In fact, they are part of his environment. Without their help, he will not be able to effectively fulfill his duties. Many managers also depend on individuals and organizations outside their organization: suppliers, customers, competitors, regulators, and unions. In an ideal situation, all these people and forces should be willing to cooperate with the manager and provide him with everything necessary to fulfill his tasks, however, unfortunately, in the real world everything is much more complicated.

Leadership tools –power and influence –these are almost the only means. thanks to which the manager can cope with such situations. If the manager does not have sufficient power to influence those on whom his effectiveness depends, he will not be able to get the resources necessary to formulate and achieve goals thanks to the efforts of other people. Therefore, although it is often abused, power is a prerequisite for the success of any organization.

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# **DO SOME FACTORS CAN BE INFLUENTIAL ON CUSTOMERS CHOICE OF FAST FOOD RESTAURANT?**

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## **Introduction**

The global expansion of fast food consumption habits and the consequent change in the competitive environment led to greater market research and the targeting of consumer groups (Acuff, Robert, 1997). On the other hand, the growth of the market and the increase in the number of fast food restaurants have encouraged consumers to pay more attention to the products they consume, that is, have influenced their interest in the diversity of factors that are decisive when choosing a restaurant. This study investigates factors influencing on customer choice of fast food restaurant.

Food consumption away from home is an increasing phenomenon among all subcategories of the population across the world. Fast food concepts developed rapidly in last few years in the world. The trend is radically changing the way people eat in Kazakhstan (Analysis of the livestock industry of the Republic of Kazakhstan, 2010).

The study further established that the traditional salient factors of value for money, convenience and accessibility were significant factor influencing their choice of fast food (Backstrom, Johansson, 2006). It was also found that factors such as nutritional value and the variety of the menu were not significant influencers amongst the respondents. Because of the study, the thesis also determines that the country of origin of the franchise brand does not play a distinctive role in the consumer decision process (Block, Scribner, DeSalvo, 2004). However, this thesis recommends further qualitative research on factors influencing on consumers as fast food franchise brands continue to explore new previously both advantage and disadvantage markets. This study examines factors influencing customers' choice of fast food restaurants (Franz, 2000).

Findings revealed that service quality, atmospheric quality, perceived value, environment, consumer demographics and modernity are significant factors influencing the customers' choice of fast food restaurants. To attract more patronage, the study recommends that fast food restaurants operating in Kazakhstan should endeavor to improve on their Service Quality, Atmospheric Quality, Perceived Value, Environment, Consumer Demographics and Modernity. A questionnaire assessing attitudes of customers towards fast food product, analysis and interpretation was made

based on percentage. This investigation was dedicated to fast food restaurants: McDonald's, KFC, Burger King, and etc. (Antonov, 2004).

### **State research questions**

The study has analysis that through customers purchase intention and its continuity depend on satisfaction level of customer towards fast food products. The main question of the study is:

- 1) what is the purchase intention of customers?
- 2) how to find out the supportive factors influencing consumers choice?
- 3) what is the value and relevance of the salient factors influencing consumer choice of fast food and how we can analyze different types of fast foods in the territory of Kazakhstan?
- 4) how we can determine the nature of relationship between fast food restaurants determinant factors and the behavior of customers towards patronizing the fast food restaurants in Kazakhstan?

Importantly, the study analyzed factors influencing of consumers' consumer choice of fast food.

### **What methodology is student utilizing?**

This article was studied by authors using two methods, they are collecting primary data (qualitative/quantitative research, conducted interviews/surveys), secondary data (books, journals, electronic databases etc). Researches first pointed out reasons and requirements, how they can be identified.

In addition, we reported criteria of fast food serving that people tend to consume them, used research questionnaires differs each other, but the most results are ranked by percentage. Research having a combination of quantitative and qualitative research is referred to as mixed method, both qualitative and quantitative research together help in providing better understanding of the research problem under study than what the individual research approach provides (Fellows, Hilmi, 2011).

Qualitative and quantitative research formed the basis of this research work. For qualitative data, the researcher conducted a focus group of tweens and conducted in-depth interviews of practitioners from fast food industry. Discussion guide was designed and used to collect qualitative data. For quantitative data, tweens were approached and data was collected using questionnaire as a tool.

### **How did the author perform data collection?**

We collected data for this study by studying certain literature, directly observing the marketing strategy of the above-mentioned fast food restaurants. In addition, focus group interviews were conducted.

For qualitative data, focus group of children and in-depth interviews of industry experts was conducted. This was done to explore the topic and get inputs which could be used constructively in framing the design of the research. Following are the details of the focus group:

Focus group of teens was conducted with the following objectives:

- to understand perception of teens at the preliminary level;
- to identify factors which influenced the perception of teens for fast food restaurants;
- to understand consumption pattern of teens for fast food;
- to get inputs for the questionnaire.

After referring to research papers and articles from journals, books, magazines, internet and other sources of secondary data, for content pertaining to the research topic, we met practitioners from fast food industry and conducted in-depth interviews.

We have chosen were from the fast food industry and had good number of years of experience in the fast food industry. They were holding responsible positions in the fast food restaurants chosen for the study.

A discussion guide with 12 questions were used for the in-depth interviews. The practitioners were met in their workplace which were the fast food restaurants – KFC, Mc Donald's, Domino's Pizza, Subway and Pizza Hut. The interview was not recorded. The researcher made notes and the answers were recorded and summarized (Esenalina, 2016).

Data was collected from Primary and Secondary sources. Primary data was collected from tweens and teens who were approached in schools, residential societies, tuitions and coaching institutes. In addition, primary data was collected through a focus group discussion conducted of tweens and in-depth interviews of practitioners. Questionnaire and discussion guide were designed and used as a tool to collect primary data. Secondary data was collected from journals (national and international), reports published by central and state government, books, websites, newspapers and magazines, newspapers, business magazines, and books.

### **How did the author analyze the data?**

Any empirical data is always somehow structured in its form. Depending on the degree of structuredness, data is usually divided into the following types:

1) rigidly structured – data existing in the form matrices of any type (for example, tables), as well as questionnaires (interviews) obtained through the formalized part of the questionnaire according to the closed-ended questions scheme. This type of data is easily formalized and is also easily expressed in numbers. From this, it can be seen that hard-structured data is most often the result of mass surveys;

2) poorly structured – data existing in text form, but at the same time specially organized.

These primarily include texts received:

- a) as answers to open questions (with a limited search field for answers);
- b) the method of unfinished offers (test to complete the proposal);
- c) a test of twenty self-determinations designed to measure the self-identity of a person;
- d) when using the method of repertory lattices.

There are other sources of poorly structured data. Such sources can be divided into various formats of such data. For example, for open-ended questions alone, there may be a large number of formats.

3) unstructured – data existing in the form of texts and obtained in the process of conducting various types of interviews (narrative, leitmotif, etc.). This also includes the texts of answers to open questions with an unlimited search field for answers and any other texts or documents that the researcher refers to. These data are not formalized, poorly organized (Mill, 2006).

The nature of the overall analysis strategy is determined by the type of inference that the researcher chooses depending on the goals of his research. If inductive inference is chosen as the basic direction of analysis, then in this case the data analysis strategy will be upward (from particular to general). If the researcher relies on a deductive inference, then the data analysis strategy will be called descending (from general to particular).

These two strategies are the most common not only at the stage of data analysis, but throughout the study, starting with the procedures for determining the research task, determining the sample, collecting data, etc. In addition to these two, but less commonly, an abductive strategy combines elements like induction and deduction. Abduction as a type of inference is constructed according to the scheme:

- a) collection of individual facts;
- b) the formulation of a hypothesis explaining the totality of facts;
- c) verification of the demonstrative power of the hypothesis (i. e., its truth).

In our case, we focused on abduction.

### **Discussion findings or what findings does author's expects**

Summing up the results of this study, we can conclude that all the tasks set at the beginning of our work were completed. Namely:

- 1) the purchase intention of customers was studied;
- 2) the supportive factors influencing consumers choice was found out;
- 3) the value and relevance of the salient factors influencing consumer choice of fast food and analyze different types of fast foods in the territory of Kazakhstan was studied;

4) the nature of relationship between fast food restaurants determinant factors and the behavior of customers towards patronizing the fast food restaurants in Kazakhstan was determined.

According to experts of Burger King in Kazakhstan, the fast food segment annually shows growth in market volumes, however, due to the current macroeconomic situation, there is a decrease in consumer demand.

Today in Kazakhstan there is growth potential, as more and more consumers practice eating out. According to various estimates, in Almaty, about 20% of residents aged 18 to 35 visit fast food restaurants at least once a week, and 25–30% – several times a week. According to TNS Gallup Media Asia research agency, 47.4% of Kazakhstani people aged 18 to 35 prefer to spend their free time in cozy cafes and bars, Burger King’s press service in Kazakhstan reports. Moreover, customers are increasingly choosing restaurants with an international name with certified suppliers and strict quality control. In this regard, Kazakhstan has a high level of activity of key players in the fast food segment, for example, Burger King continues its expansion and currently has 26 restaurants, including a new format for Kazakhstan “Autoexpress” (Esenalina, 2016).

Kazakhstan in the ranking of food delivery is located between the largest economies in the world, as well as Russia, Turkey, the Czech Republic and other countries. The main audience of the food delivery market is millennials, which is quite expected.

Another popular market area is fast casual restaurants. This is a cross between fast-food restaurants and standard establishments. In this concept, customers are offered a restaurant serving, but cooking takes less time than in a regular restaurant or cafe. In addition, business is gaining momentum in proper nutrition.

In 2002, several Mc Burger employees split off from the company and created their own brand, which in name and design was very reminiscent of the world famous company – King Burger. The first King Burger restaurant appeared in the City Plus shopping center and was popular with visitors to the shopping center. In the same year, another cafe was opened in the Silk Way City shopping center. King Burger were the first to open their establishments in the Almaty region – in Kapchagai and Taldykorgan. After the appearance of the Burger King network in Kazakhstan, they were forced to rebrand and change the name to Kind Burger (Esenalina, 2016).

The first foreign fast food chain to launch our franchise with us was the Russian Rostiks, which opened its restaurants in Kazakhstan back in 2001. In 2005, the owner of this brand, the Russian company Rosinter Restaurants, entered into an agreement with Yum! Brands on the joint development of the Rostiks-KFC network.

In 2008, Kazakhstan rebranded the network. On the Rostiks-KFC menu, along with branded chicken skewers, dumplings, pasties and pastries, KFC menu burgers, such as Original Recipe,

Twister and Zinger, appear. In 2010, the Russian company finally sold the Rostiks KFC restaurants (Antonov, 2004).

Therefore, KFC became the first global brand in this segment in Kazakhstan. The international company Americana Group represents it. The KFC restaurant opened on October 25 at MEGA Astana shopping mall (under a joint brand with Rostiks), and then at the Almaty MEGA center. After the sale of the Rostiks chain, KFC restaurants were opened at all points.

In 2009, the Americana Group brought the Pizza Hut franchise here, and in 2011, the first point of the Hardee's chain appeared. Currently, there are 18 KFC restaurants and 13 Hardee's in Kazakhstan (Antonov, 2004).

A few years ago in Kazakhstan, one of McDonald's main competitors appeared – Burger King. The first restaurant with 280 seats was solemnly opened in the Almaty MEGA Alma-Ata shopping center on May 28, 2012 and is still one of the largest restaurants in the chain in Eurasia. Since then, another 14 institutions have been opened in Almaty, Astana, Aktobe and Aktau. QSR LLP owns the franchise with the support of Verny Capital JSC. Representatives of the company said that negotiations on the purchase of the franchise lasted about 18 months. At the time Burger King entered the fast food market in Kazakhstan in 2012, it was estimated at \$ 200 million. The annual growth is 10–15% (currently about \$ 250 million). According to representatives of Burger King, the upcoming arrival of McDonald's in Kazakhstan is not accidental (Esenalina, 2016).

#### **What recommendations does the author do for further research for this topic?**

As practice shows, the most popular fast food chains in Kazakhstan are: McDonald's, KFC and Burger King. If we analyze the reasons for the success of these cafes, we will formulate recommendations for future businesspersons in the fast food market in Kazakhstan. In all fast food establishments, profit grows in proportion to the number of customers. For this reason, due to the existing competition, organizations have to resort to various methods of drawing attention to their products to attract a larger number of customers, and thereby increase profits:

1) Location. Fast food company cannot be profitable if it is located in a place where passenger traffic does not exceed 500 people per hour. Just for this reason, the points open at the passage places: at the metro, train stations, etc. In addition, in most cases, the decision to visit an institution in a person arises spontaneously.

2) Price policy. Everyone knows that in fast food these are semi-finished products, the final processing or preparation of which takes place immediately before serving the buyer. However, this does not say that fast food is badly cooked and poor-quality food, but everywhere there are rules and exceptions.

3) Quality of service. The main distinguishing feature of fast food restaurants is that the service time should be a couple of minutes and the time spent by consumers in such an institution is about 30 minutes. Every fast food company should have a detailed plan of what, how and in which case should speak and do employees, all this should be described in a policy form (service standard).

4) The style of fast food establishments also plays a large role in shaping the mood of the client. Fast food restaurants try to use those interior items that would give an idea of the kitchen that they offer. The interior does not use objects that can delay a person in a restaurant because people need to prepare a place for the next client and the faster this cycle occurs, the greater the profit.

5) Loyalty programs for customers. To increase the number of regular customers, fast food establishments develop discount programs: customer cards, bonuses, gifts, a discount system for a group of establishments (for example, pizzeria and bowling). Some fast foods use this as an indirect form of increasing loyalty, such as the development of a childcare system (for example, the organization of children's dinners with a toy, as in MacDonal'd's).

6) As a new additional service, which is currently actively used by fast food restaurants, one can name free delivery, offering the client to quickly deliver a quality product to his home or office. Online delivery is also possible via the Internet and delivery during the organization of celebrations.

7) Consumer research. To support programs forming loyalty, fast food enterprises need to conduct a constant analysis of the dynamics of sales volumes both for the enterprise as a whole and for each assortment position, as well as monitoring customer preferences and wishes.

8) Organization of a marketing company. An advertising company always accompanies an introduction to the assortment of new products, which is most often the company's development. In some fast food establishments, new products are promoted through presentations on plasma screens. One more often used advertising tool – promotions, they can be used in a separate restaurant, and with all companies or enterprises. It can be either a large promotion with a large budget or local, using local advertising tools and loyalty programs.

9) However, the most important dividing element of visitor preferences of fast foods is still an assortment of dishes on offer. Choosing a kitchen is a difficult task. It is necessary not only to know, or to guess the demand for a particular concept of fast food, but also clearly imagine the process of preparing dishes, which should take less amount of time.

The following qualifications of fast food enterprises also can be noted:

1) Western-style establishments. Restaurants whose format is based on a specific product. Even though the main product is present in all fast food establishments, in the enterprises of this type the subject matter of this product is brought to the first place in importance.

2) The orientation of fast food enterprises to the release of Kazakhstan national products often shows itself as the most profitable. Such fast food restaurants have a higher number of visitors. In any case, eventually, there is a competition for honey with a variety of restaurants with Kazakhstan cuisine, and thus forced to look for new ways to the heart of the consumer.

3) Non-branded outlets for the sale of fast food – pies, pastries, hot dogs, etc., which for the most part operate without a service area, which have a very good turnover due to their availability. The main feature of such enterprises is the takeaway trade; points are located in kiosks, or directly on the street. The price category is very low.

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# Theoretical aspects for a model of entrepreneurial university in the context of transformation

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## Introduction

In recent years, the search for a university model that gives greater flexibility, dynamism and freedom to the higher education system has become an increasingly popular trend. A number of scientists believe that one of these models that can meet the needs of the time is an entrepreneurial university (Clark, B. R, 2011). This article will briefly discuss the main theories that can serve as the basis for the formation and transformation of the South Kazakhstan State University (*hereinafter – SKSU*) into an entrepreneurial university.

The entrepreneurial university has been the subject of active research in recent years (Audretsch, 2014; Bronstein, J. & Reihlen, M., 2014; Gibb A., 2012; Guerrero, M., Kirby, D. & Urbano, D., 2006). Some scientists in their works focused their attention on the theory (Clark, 1998; Guerrero, M. & Urbano, D., 2012a), while the rest tried to identify the factors that shape the entrepreneurial university (Rothaermel, FT, Agung, SD & Jiang, L., 2007; EC & OECD, 2012; Markuerkiaga, L., Errasti, N. & Igartua, JI, 2014). But all scientists agree that the **main challenge** of modern universities is a **dynamic and constantly changing environment** that requires rapid adaptation. In this connection, considering the concept of “dynamic environment” from the point of view of modern theory will give a deeper understanding of the relationship between science, innovation and economic development.

The desire to improve the quality of life of citizens and ensure the country's competitiveness is the driving force behind the search for a new university models that can generate innovations and introduce them into production, and therefore influence the improvement of the economy. In other words, a university should

become an integral part of the country's innovation system, the effectiveness of which is a key factor determining its competitiveness.

In this context, the innovation system is considered as a set of private and public institutions whose activities, both individually and in cooperation with each other, are aimed at creating, importing and constantly improving and spreading innovations (Lundvall, B-Å & Borrás, S, 2005).

Universities that have chosen the path of transformation into an entrepreneurial university are considering the possibility of creating such a system through the prism of the triple helix theory. In accordance with this theory, the sustainability and further growth of the economy in the modern world is ensured by the innovation system, the leading element of which is the university - the generator of innovations (Itskovits, 2010).

So, in its activities, SKSU also relies on the theory of the triple helix and is actively working towards transformation into an entrepreneurial university (Strategic Plan, 2014). However, the transformation process faces difficulties in developing practical steps due to the lack of a generally accepted approach in modern scientific literature, despite the widespread use of the definition of “entrepreneurial university” (Bunyak, 2016). Therefore, from our point of view, further research in this direction is required.

### ***The Triple Helix Theory of Etzkowitz in the Context of Transformations of SKSU into an “entrepreneurial university”***

In theory of “Triple helix” Etzkowitz and Leidesdorff reveal the specifics of the transition from industrial to knowledge society, which indicates by losing domination of the industry state dyad, in the first case, and the growth of triad relations between university, industry and government in the second (Etzkowitz, H., Leidesdorff, L., 1998).

The theory under study shows that the functions of modern universities are changing, which makes their role leading in the knowledge society (Ranga, M. and Etzkowitz, H., 2013).

*The changes are as follows:*

- universities have added a “third mission”. Now, along with traditional missions such as teaching and research, universities are involved in the socio-economic development of society. The purpose of these changes is to strengthen the links between the university and industry. The changes, which were largely initiated by the state, were beneficial for companies in using the research potential of universities and their research and development (R&D) in order to increase their competitiveness. Thus, the importance of the “third mission” emergence is on a par with the traditional academic missions of the time of the “academic revolution”. (Slaughter, S., Leslie, L., 1997).

- the attitude towards students and their education has changed. Along with obtaining a certain specialization due to traditional education, they are encouraged to promote economic growth and job creation through entrepreneurship and the establishment of their own companies. In other words, “The university’s ability to constantly provide students with new ideas, skills and entrepreneurial talent has become a core asset of the knowledge society” (Ranga and Etzkowitz, 2013: 2). In addition, science parks, incubators and interdisciplinary centers are being created at universities, which are actively used by universities to introduce new training modules, incubation programs and entrepreneurship. Individuals and entire organizations are trained in such additional educational institutions (Etzkowitz, 2008; Almeida, M., Mello, J., Etzkowitz, H., 2012).

- universities have become a new source of technology generation and transfer. Universities are no longer just traditional sources of human resources and knowledge. The ability of “universities” to generate technology and constantly increase internal organizational capabilities for the formal transfer of technology and production has

enabled them to become independent of informal relationships (Ranga and Etzkowitz, 2013: 3).

Ranga and Etzkowitz (2013) describe the *Triple Helix* system as a complex set consisting of: (1) components (institutional areas such as universities, industry, and the state, with a wide range of actors (Fig. 1); (2) relationships between components (cooperation and moderation of conflicts, joint leadership, interchangeability and networking) and (3) functions described as processes taking place in the so-called “space of knowledge, innovation and consensus”.



Figure 1 Triple Helix Model. Adapted from Igissinov (2016)

Thus, based on the *Triple Helix* theory, it is possible to describe the **complexity** of the modern economic **environment**, taking into account the wide range of participants in its components, their relationships and functions.

### ***Schumpeter`s Modern Theory of Innovation***

Probably the biggest contribution to understanding the impact of science and innovation on economic development was made by Joseph Schumpeter (Askarov, 2014). Schumpeter is considered the founding father of the modern theory of innovation, who gave a detailed definition of innovation and entrepreneurship (Igissinov, 2016). Schumpeter characterized the competition of capitalist reality as a competition of new goods, new technologies, new sources of supply and new types of organizations, and not as a competition of bookkeepers (Schumpeter, 1934). Therefore, in Schumpeter's understanding, the close interweaving of innovation with

entrepreneurship defines innovation as “new combinations” (Fagerberg et al, 2005), which can be interpreted as determination and the ability to get new combinations in order to compete with existing combinations. Thus, Schumpeter considered the development of the economy not only as a quantitative increase in production, which is largely associated with the use of financial and material resources, but as a result of some internal mechanisms that lead to qualitative changes in the economy (Igissinov, 2016).

In addition, Schumpeter (1934) introduced the concept of "creative destruction", entailing innovation and renewal. In other words, the creation of new combinations is associated with the **uncertainty** of the result and the creation of new technologies, new sources of supply and new types of organizations that destroy and replace old ones.

Thus, the main aspect of this theory is the constant interpenetration of existing technologies, skills and industries, which entails the emergence of new technologies, skills and industries (Schumpeter, 1934). This **dynamic** process causes economic development and is unstable in nature, which explains the need for constant changes in production, the introduction of new technologies and the introduction of new products. Consequently, the evolutionary economy, and as applied to our case, the **environment** is called by Schumpeter “**dynamic**” (Andersen, 2011).

### *Theoretical foundations of the entrepreneurial university model*

Drawing on American and European experience, Clark B.R. (2004) argues that universities are becoming entrepreneurial and not afraid to build up their potential for the commercialization of ideas and the creation of social values when this does not pose a significant threat to academic values. In other words, diversified sources of financing are needed, involving high income from non-state sources. Hence, the dissemination of knowledge through an entrepreneurial university is a new approach in which the mission of the university integrates the issues of economic and social

development, thereby encouraging universities to transform from traditional studies into research universities, and, in turn, into entrepreneurial universities.

Clark B. (1998) notes that an important feature of an entrepreneurial university is the desire to significantly change the nature of the organization's activities in order to be in a better position in the future, in other words, to have "Excellence". These changes are associated with the active use of innovations in their work, as well as the adoption of risks in the development of new practices, the result of which is unclear.

### *Uncertainty and complexity*

Dynamic environments are subject to constant changes, therefore, solving the problems of dynamic environments require entrepreneurial initiative. Conversely, static environments lend themselves to more predictable and routine bureaucratic response schemes. The concept of "Creative destruction", introduced by Schumpeter, outlined the traditional essence of the entrepreneurial concept, as the creation and use of new and innovative combinations of "factors of production" and "ways of doing things". Given the fact that the creation and use of innovations is associated with great difficulties described in the Triple Helix theory, and their result or updates, in accordance with the modern theory of Schumpeter's innovations, are uncertain. Casson (1982), in his work, says that the entrepreneurial concept is based on the means of overcoming and / or creating **uncertainty** and **complexity**. Figure 2 shows an attempt to characterize the evolving nature of the environment of the challenges facing universities (Gibb et al, 2009).

Moving along the axes, from simple to complex, and from certainty to uncertainty, a change in the concept of "Excellence" can be observed. It can be seen that government funding is a key element of environmental certainty. "Certainty" in this case means simplicity associated with the autonomy of the environment in which narrowly disciplinary research and program training is carried out only within the framework of a state order.

Departure from such a closed system implies an increase in complexity due to an increase in the number of partners, the diversification of partnership models,

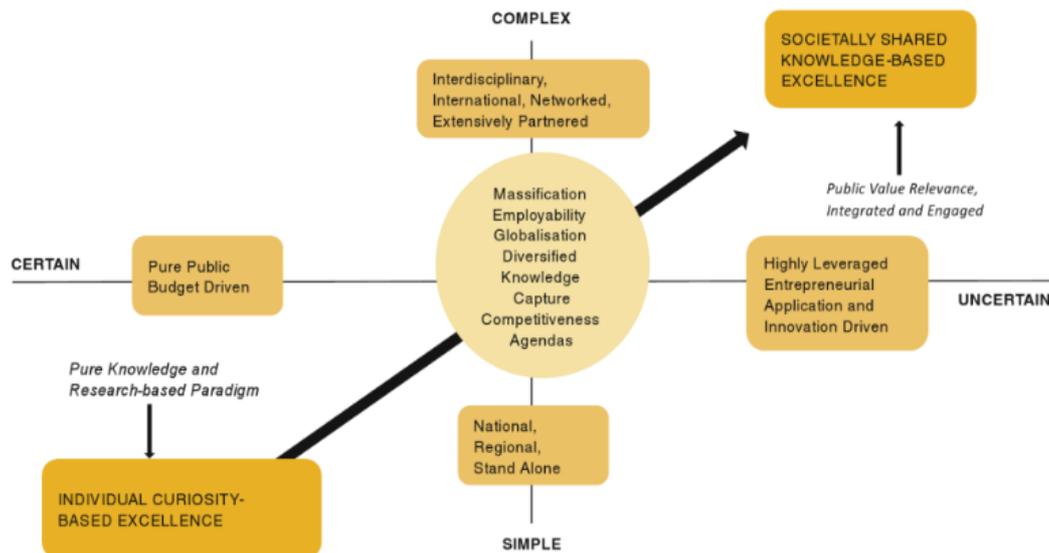


Figure 2 The changing dynamic environment of higher education institutions and the evolution of their respondents. Adapted from Gibb et al (2009).

interdisciplinary researches and the creation of new training programs depending on market conditions. Therefore, the **uncertainty** is the need to seek a large share of funding from extraneous sources, such as industrial enterprises, grants and contract research, alumni funds and charity.

Thus, the current stage of development of university education is characterized by the search for a university model that meets the requirements of the time due to there is no universal model of an entrepreneurial university and ways of its formation (Bunyak, 2016). This article briefly discusses three main theories that can be at the heart of the formation of a model for transforming SKSU into an entrepreneurial university. The Triple Helix theory, the modern Schumpeter theory of innovations and the theoretical foundations of the model of an entrepreneurial university have allowed us to reveal the essence of the concepts of “complexity”, “environment”, “uncertainty” and “dynamism” in the context of creating an entrepreneurial university model.

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## **Stress in tourism and aviation.**

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Over the years, the development of the air transport sector has been important in the tourism industry.

Airlines are in particular closely connected with tourism development, providing vital links especially for long-haul travel while tourism, in return, is an important driver in the development of air transport.

Both ICAO and UNWTO have been underlining the synergies between aviation development and tourism since the adoption of the “Medellín Statement on Tourism and Air Transport for Development” during the last World Tourism General Assembly [1].

The 2019–20 coronavirus pandemic has had a significant impact on aviation industry due to the resulting travel restrictions as well as slump in demand among travelers. Significant reductions in passenger numbers has resulted in planes flying empty between airports and the cancellation of flights.

A novel coronavirus was reported to the World Health Organization (WHO) in China on 31 December 2019. The WHO named the disease COVID-19 on 11 February 2020. As of 26 February 2020, the disease has been detected on all continents, except for Antarctica. Daily updates on COVID-19 since early February 2020 have made headline news worldwide for much of 2020. This editorial evaluates risk management based on the Global Health Security (GHS) Index of global health security capabilities in 195 countries [2].

The Coronavirus tourism crisis is one of the hardest challenges to the world tour industry in decades.

Someone find analogies in the events following the September 11, 2001 attacks in New York, and someone says that nothing comparable in international tourism has happened since the end of World War II.

The World Tourism and Excursion Council (WTTC) claims that the loss of the world tour will amount to more than \$2 trillion. However, the crisis could result in the loss of up to 50 million tourism jobs worldwide.

UNWTO estimates that in 2020 global international tourist arrivals could decline between 20-30%, down from an estimated growth of 3% to 4% forecast in early January 2020. This could translate into a loss of US\$ 30 to 50 billion in spending by international visitors (international tourism receipts) [3].

Today, tourism is a huge global business that accounts for 10% of global GDP [4].

The spread of COVID-19 will result in the first decline in global air travel in more than a decade, says the International Air Transport Association (IATA). In its initial impact assessment issued February 21, IATA pegged likely losses to the airline industry at \$29.3 billion in 2020. “Airlines are making difficult decisions to cut capacity and in some cases routes,” says Alexandre de Juniac, IATA director general. “This will be a very tough year for airlines.” IATA estimates that losses in China’s domestic market will hit \$12.8 billion.

IATA forecasts show that airlines in the Gulf region are already bracing for a \$7 billion financial hit and the loss of up to 347,000 jobs due to disruptions caused by the coronavirus.

The critical thing to remember here is that a lot of the carriers, particularly in the GCC, have hedged their bets on O&D [origin and destination] traffic, picking up in one place, transiting through home hubs and shipping off to Europe, North America and beyond.

Due to the sudden and large losses of revenue, airlines began to hold out against refunding cancelled flights and tickets to conserve cash, despite government regulations. In Europe, airlines had successfully negotiated to defer some \$1.2 billion in air traffic control charges [5].

The first carrier to collapse was Europe's largest independent airline Flybe that went bust on Thursday, while major carriers such as Air France-KLM, Cathay Pacific, and Lufthansa are making budget cuts, grounding aircraft, looking at capital injections, and implementing hiring freezes and salary cuts in an urgent bid to free up cash.

Three regional airlines have filed for bankruptcy in the United States and United Kingdom.

On 23 March, Emirates announced it will stop all passenger flights, starting 25 March 2020.

Singapore Airlines had to cut 96% of its flights up to end-April and ground the majority of its air fleet on 23 March 2020. Its management also took a pay cut and staff up to certain management levels had to take unpaid leave [6].

Turkish Airlines temporarily suspended all international flights starting from 28 March [7].

More than two months was getting Chinese coronavirus COVID-19 to Kazakhstan. March 13, 2020 published two infected people who arrived in the country. Since that day the number of registered cases is growing in geometrical progression.

The first death from a coronavirus in Kazakhstan announced in March 26.

Since March 16, state of emergency has been operating in the country, Nur-Sultan, Almaty and other cities are quarantined.

From 26 January 2020, sanitary and epidemiological control at checkpoints across the border was strengthened, and training exercises were held. In addition, medical monitoring was provided for people arriving from China, and the 72-hour visa-free stay for Chinese citizens in Kazakhstan was suspended [8].

From 3 February to suspend regular air traffic between Kazakhstan and China.

On 26 February, a decision was made starting from 1 March to suspend flights from Iran and limit the number of flights to South Korea from 9 to 3 per week.

On March 2, it was also decided to introduce from March 5 a temporary ban on Iranian citizens entering Kazakhstan and to suspend the Nur-Sultan-Baku flight, limit the number of flights of the Almaty-Baku route from five to one per week, and on the Aktau-Baku route from seven to one per week.

All flights in the country have been suspended from March 22 excluding charter, repatriation and cargo flights.

Six thousand tourists were returned to Kazakhstan after the coronavirus pandemic was announced.

Due to quarantine, companies are forced to return money to passengers and change tickets without penalties. In order not to return tickets and save at least some money, companies are trying to reissue the maximum number of tickets.

While Air Astana will refund fares for cancelled flights, other airlines may only extend change fee waivers or provide credit towards future flights.

Three billion people around the world are sitting at home and afraid of infection, the borders are closed, visa-free regimes are canceled, planes do not fly, hotels are empty and staff are fired. But sooner or later, the pandemic will end. The world will begin to quarantine, restore communications and remove travel restrictions.

Like all previous crises, the current one will enhance digitalization and uberization. Mass tourism will become more individual.

But people will not stop traveling, travel and hospitality services will be in demand. business will be for those who have the strength to hold out and get out of the crisis even stronger.

In order to achieve these objectives, the research was conducted using analysis of secondary data included in several academic journals and publications, and interviews from airline industry experts.

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# **Outsourcing Logistic Operations through Food Service Distribution companies**

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## **Abstract**

Increasing competition is changing the environment facing most companies nowadays. In response to this intensified competitive pressure, companies are pushed to enhance performance by adopting or improving operational process. In order to get competitive advantage, companies outsource part of their process. The outsourcing quickly became widespread in various business domains, so as: administration, finances, marketing, personnel management, logistics, than includes the entire supply chain (Payaro & Rita Papa, 2017). Logistics is a one of the common function that companies try to outsource. The 2018 22<sup>nd</sup> Annual Third-Party Logistics Study prepared by C. John Langley Jr., shows that the most frequently outsourced activities are domestic transportation (83%), warehousing (66%), international transportation (63%), customs brokerage (46%) and freight forwarding (46%). There are many researches about logistics and logistics outsourcing; there are less studies about logistics outsourcing in Food Service Distribution Industry. This paper aims to describe main benefits & problems, Strengths & Weaknesses, Opportunities & Threats of outsourcing Logistics Operations.

Any companies could face with finding suppliers or with transporting merchandise to a store. The business owners also conduct distribution logistics with inventory and warehousing. In the business environment, logistics operations can be simple or complicated. For more complicated procedures, third parties often are hired.

**Keywords:** outsourcing Logistics Operations, Foods Service Distributor.

## **Introduction and objective**

In the globalized world economy, logistics plays an important role in the development of a country. Kazakhstan is the 9-th largest country in the world. The total length of land border of Kazakhstan with other states amounts to 13,200 km. The President of Kazakhstan has repeatedly stressed that the development of transport logistics is one of the most important challenges for the economy of Kazakhstan. The effectiveness of Logistics Operations is highlighted on country level with attention to transport cost reduction of domestic goods.

Importance of the role of transport logistics is recognized all over the world, and it is one of the profitable segments for national economies. In developed countries, the share of transport logistics is at the level of 13-14% of GDP. This indicates that these countries pay special attention

to development of this sector as one of the sources of national income. In Kazakhstan, this indicator in 2017 was 8% (Timur Sultanov, 2018).

The Objective of study of the thesis is an international Food Service Distributor METRO Cash & Carry Kazakhstan and the subject of the study is to analyze reasons why companies should outsource Logistic Operations via Food Service Distributor and reasons for keeping it internally.

The Research Objective of the Study is following:

To provide recommendations for achieving success in Outsourcing of Logistics Operations and enhancing the role of Food Service Distribution companies in Kazakhstan.

To help in identifications of the needs for Outsourcing of Logistics Operations. The company has to carefully analyze current processes of Logistics Operations in order to identify key drivers of the movement towards outsourcing.

## **Literature review**

The literature focused on refereed journal papers mainly published within the period 1990-2017. The papers were retrieved from Business Logistic journal, Business & industrial Marketing journal, Logistic Management journal. As well, the literature is based on Business researches, 2018 Annual Study prepared by the Center for Supply Chain Research in US, 2017 Outsourcing Attitudes Survey results prepared by the Chartered Institute of Logistics and Transport in UK and the latest book published on 31<sup>st</sup> of December 2019 “The Logistics Outsourcing Handbook” prepared by Jo Godsmark and Gwynne Richards.

In the academic literature, researchers have attempted to explain the dynamics in the Logistics outsourcing industry by applying a range of theoretical methods such as Resource Based Theory (Penrose, 1959), Transaction Costs Economics Theory (Williamson, 1975) and Agency Theory (Jensen & Meckling, 1976).

The first paper “Supply Chain Management, Partnerships and the Shipper-Third Party Relationship”, which was published in 1990 by International journal of logistics management, emphasizes that concepts of supply chain management and partnerships are receiving increasing attention.

The key takeaways from the paper “Supply Chain Management, Partnerships and the Shipper-Third Party Relationship” 1990 are following:

- Outsourcing needs to be considered as a strategic partnership throughout supply chain. Firms who become involved in supply chain management systems today do so because these systems allow to better compete in the market place.
- Benefits & risks of partnership relationships need to be evaluated firstly

The next paper which was prepared by the end of 90<sup>th</sup> is “A managerial framework for the acquisition of third- party logistics services”. The paper was prepared by Harry L. Sink and C. John Langley and published in journal of business logistics in 1997. The purchase of Logistic services is still key point which requires careful analysis before implementation. This paper covers four research methods: literature review, an industry focus group, case studies and survey. The United States, United Kingdom, and Europe experiences have been studied.

There is very useful report which supports my thesis is “2018 Third-Party Logistics Study (Results and Findings of the 22nd Annual Study)” prepared by C. John Langley Jr. in 2018. According to Langley, since the study launched in 1996, the business environment has changed, shipping demands have increased, technological capabilities have grown, and the logistics sector has experienced considerable change. The supply chain has become a value driver and differentiator.

This study contains many statistics: global third-party logistics providers’ revenue, what shippers outsource (shipper is a buyer of logistic operations), use of automation and digitalization technologies, potential roadblocks to automation and digitalization. The 2018 Third-Party Logistics Study (Langley et al, 2018) found that among respondents to the study, 73% of shippers and 92% of LSPs consider that LSPs provide new and innovative ways to improve logistics effectiveness, and 81% of shippers and 98% of LSPs felt that the use of LSPs had contributed to improving services to end customers.

The similarities of all papers and reports that they described advantages and disadvantages of Outsourcing Logistics Operations.

### **Research methodology and data collection tool**

This paper is developed from:

1. Past researches in the area of Outsourcing Logistics Operations. Main differences, commonalities and finding related to investigated issue. The literature focused on refereed journal papers mainly published within the period 1990-2017. The papers were retrieved from Business Logistic journal, Business & industrial Marketing journal, Logistic Management journal.

2. SWOT analysis which offers effective technique to aid the decision making process concerning Outsourcing Logistics Operations. It ensures that issues are: identified, classified and prioritized

3. Analysis of Food Distribution Industry and Outsourcing Logistics Operations via Food Service Distributor in Kazakhstan. The Food Service Distribution business a very attractive industry sector that is characterized by (compared to food retail) very strong customer relationships,

high shopping frequency, large shopping baskets and high productivity at significantly lower cost to serve. In order to ensure the lower cost base, effective Logistics Operations are required.

### Data analysis and Findings

To evaluate on how the Outsourcing Logistics Operations is carried out, the tools SWOT analysis was applied in this study. Strengths & Opportunities, Threats & Weaknesses of Outsourcing Logistics Operations for a company were grouped as follows: **Economic, Control, Managerial, Strategic and Operational**. This structure is based on findings of literature review part.

The main dimensions of SWOT analysis of Outsourcing Logistic Operations were defined based on studied papers. See the next table.

	<b>Strengths</b>	<b>Weaknesses</b>
<b>Economic</b>	Cost savings	Increased cost related to margin, pricing or unexpected costs
<b>Control</b>	Share the risk	Quality of service provider
<b>Managerial</b>	Increased knowledge and expertise	Severance cost for termination/transfer of existing staff
<b>Strategic</b>	Outsource the non-core function	Confidentiality
<b>Operational</b>	Improved Logistics Operations	Time and efforts on Logistics have not decreased
	<b>Opportunities</b>	<b>Threats</b>
<b>Economic</b>	Increased return on equity	Higher than expected outsourcing cost
<b>Control</b>	Elimination/reduction of the risk	Loss of control over Logistics Operations
<b>Managerial</b>	Saving internal resource	Loss of in-house expertise, lose flexibility
<b>Strategic</b>	Focus attention on core function	Barriers into greater market share
<b>Operational</b>	Flexibility (Increase ability to respond to changing demand)	Customer complaints

Additionally, METRO Group and METRO Kazakhstan experiences in the regard with providing Food Service Distribution to B2B customers were analyzed via SWOT.

### **Summary and Recommendations.**

The trend is that companies will continue to outsource. Customers will continue to ask high level of services provided and innovation in order to stay competitive. As we moved into the new millennium, we move towards greater digitization, automation and disruptive technologies. Technologies is advancing, enabling companies to do more in less. Companies need to be prepared for technologies. Logistics providers should invest in their IT solutions, replacing legacy system with innovative solutions. In today's environment, decisions on modifying the course of shipment should be done at any time.

The study gives general suggestions based on METRO Cash & Carry Kazakhstan experience, selected secondary data and SWOT analysis. For the future paper, it is recommended to study:

- Central Asia countries: Kyrgyzstan and Uzbekistan. The main Food Service Distributors have been already expanded their business to Central Asia.
- Success and failure cases of METRO Cash & Carry Kazakhstan and other METRO countries.
- Different types of companies like local & foreign or small & large. The needs of different types of companies could deviate and decisions concerning Outsourcing of Logistics Operations are not the same for them.
- Outsourcing contracts and pricing mechanism.
- Performance measurement and management

Finally, the paper could be expanded by survey, case studies. A more specific focus could help provide further insights to companies considering Outsourcing Logistics Operations.

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**THE ROLE OF SOCIAL MEDIA IN THE DEVELOPMENT OF TOURISM:  
THE CASE OF TOURISM OPERATORS IN ALMATY, KAZAKHSTAN**

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Abstract

This conference paper discusses an investigative study into the uses and applications of Social media ICT (Information, Communication and Technology) for sustainable tourism development using a destination-focused perspective and through the undertaking of a worldwide study, this research examined how Social media can be used in the management of sustainable tourism. It presents a way of ICT-based tools for use by managers and discusses the opportunities in management for applying ICT to Sustainable Tourism development. Overall a total of 6 Tourism operators companies from the various regions of Kazakhstan were participated. Each operator interview was transcribed verbatim upon completion. Despite the recognition and consensus that Social media can play a strategic role for sustainable tourism development in Kazakhstan but till date it has been observed that ICT tools and its application is not very promising for sustainable tourism development. Although proper application of ICT can promote the Kazakhstan, marketing, sales, tourists, information, EMS system, host community development etc., it has been observed that it has a very slow progress at study area but awareness is strongly creeping up.

Kazakhstan is the ninth-largest country by area and the largest landlocked country. Today, tourism is not a major component of the economy. As of 2014, tourism has accounted for 0.3% of Kazakhstan's GDP, The Global Competitiveness Index 4.0 measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity, but the government has plans to increase it to 3% by 2020. (world economic forum. (n.d.). Retrieved December 25, 2019 from World Economic Forum, Global Competitiveness Report 2018)

(world economic forum. (n.d.). Retrieved December 25, 2019 from

Introducing Social media information, technology and techniques alone will not meet the development challenge. For social media information and technology to succeed in Kazakhstan, education for all must be the first priority. Stakeholder's participation, awareness and education towards the right application of ICT are required for sustainability and positive experience for the stakeholders.

Traditional marketing communications apply to older media: film, television, radio, billboards, face-to-face, physical print and placement / POP (point of purchase). These forms of traditional marketing can be far-reaching and have a lifespan time in advertising tourism business. When it comes

to travel agencies and tour operators, there has been a steady course of implementation of traditional marketing over the years. Billboards, flyers and OOH (out-of-home) methods proved to be very old technique and less powerful and companies deviate and didn't get majority of their tourism business to achieve the heights of success rate. Television is still the most effective and traditional form of advertising, with the highest ad revenue in the United States—totaling \$78.5 billion in 2011. In the UK, 57% of people consider television advertising the most impactful. The second highest is newspaper advertising, at just 15 percent. Radio advertising generated more than \$17 billion in ad revenue during 2011. This form of advertising is old and conventional also the least ignored, with nearly 70% of listeners keeping the station tuned in during commercials compared to the second highest—television, at just 20 percent. Print advertising generates nearly \$30 billion in ad revenue every year. While revenue for print media has slightly declined as online social media revenue rises, for many businesses. (world economic forum. (n.d.). Retrieved December 25, 2019, from World Economic Forum, Global Competitiveness Report 2018)

Tourism is one of the very important industries in the world. The value and importance of tourism industry is very high for every country because it contributes far more and much wider. Tourism brings benefits and advantages and contributes in the overall growth and development of the economy of a country and also in progress of the society and social structure of a country. It also helps and motivates in preserving of natural resources.

This industry is driven by tourists. These tourists are its primary and only customer segment who show the need and desire to visit places for different reasons. It is also driven by the progress and development in its value chain industries in providing more services, facilities, convenience, and thorough social media connectivity, to its customers segment to make travel and tourism more desirable, easy and attractive.

Small and medium size tour operators in Kazakhstan's investment environment are defined by the government's support for foreign investors. To increase the FDI inflow, the country established the Kazakh Invest National Company. Kazakh Invest is a one-stop shop for investors that facilitates investment projects' implementation process from an idea to implementation, as well as ensures aftercare services. In 2018, Kazakh Invest helped develop more than 70 investment proposals in a variety of industries: and tourism industry as well. It included creating a business plan, financial model and teaser development. (advertising. (n.d.). Retrieved October 19, 2019, from Nielsen, GfK; ON Advertising)

Small media business is an independently owned and operated company that is limited in size and in revenue depending on the industry as per their gross domestic product which, “is the standard measure of the value added created through the production of goods and services in a country during a certain period. As such, it also measures the income earned from that production, or the total amount spent on final goods and services (less imports). (gross-domestic-product. (n.d.). Retrieved December 18, 2019, from (data.oecd.org › gdp › gross-domestic-product-gdp)

Social media can play a very vital role for future sustainability of the tourism destination. Lack of knowledge on social media and ICT and its implication for sustainable tourism development amongst the stakeholders is a major issue in the area. Traditional marketing communications apply to older media: film, television, radio, billboards, face-to-face, physical print and placement / POP (point of purchase). These forms of traditional marketing can be far-reaching and have a lifespan time in advertising tourism business.

The purpose of the study is to analyze effective ways to use of social media in tourism business networks as a tool of mass marketing and tourism companies, promoting a tourism product.

In this work, a comparative analysis of small scale tourist business industry companies competing in the market of Kazakhstan. To further Study their presence, behavior, community on social networks and the content plan on the business page of Travel Agency Travel Boutique LLP has been completely updated, the business page on Instagram has been opened.

**Keywords:** ICT, Social Media development, tourism, Kazakhstan

## Introduction

Today, the formation of a target audience within social networks is becoming a decisive factor for success. Further improvement of the capabilities of social platforms makes their use as an innovative tool in advertising and marketing campaigns more and more relevant.

In the world, 60% of the population does not trust traditional advertising, while almost all trust the emotional advice of their friends. When making a purchase decision, 88% of buyers turn to company reviews. Over the past decade, social networks have carried out almost revolutionary changes in the vastness of virtual communication. Every day, 175 million people visit Face book pages, twenty hours of new videos appear on YouTube every minute and every second, more than 600 people use the Internet to reach an audience located in different parts of the world. And these numbers are growing at a reactive rate. All this once again suggests that today it is simply vital to look differently at social

networks. (All about flyaway promotional campaigns on social networks. (n.d.). Retrieved November 12, 2019, from \*(Smith, D.

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The use of social resources, in particular by travel companies, gives them significant advantages related to the “socialized” behavior of tourists: decisions made by tourists often depend on the information, reviews, opinions and recommendations of other travelers, their impressions and experience, which can be found on social networks. As Shikh K. writes in his book, if you are a businessman, you simply have to be where your consumers are, and your consumers spend more and more time on social networking sites. (facebook era. (n.d.). Retrieved October 20, 2019, from Shikh, K. Translated from

English by Mikhail Ferber. 2011 Face book era. How to use the power of social)

Today, most business areas, including travel agencies, have sites and business pages on social networks. Available online systems for renting and booking hotels, transfers, and excursions are becoming popular for organizing the current and future activities of tourism companies. All activities of a tourist company are based on using the capabilities of the global World Wide Web, starting from searching and attracting customers as a communication and marketing tool, and ending with the formation of a tourist product.

In the past few years, a new type of website, better known as a social network, is gaining momentum. Wikipedia defines social networks as a platform, online service, website designed to build, reflect and organize social relationships on the Internet. Each person or company can open an account on social networks and leave information about them, starting from the date and place of birth, hobbies, place of study and work, ending with an online store, accepting online applications, online reservations, etc. Today, the functionality of social networks allows you to make purchases or work without leaving home. The technical capabilities of the World Wide Web are expanding day by day.

There are several dozens of varieties of social networks in the world, but, as practice shows, the most common of them in Kazakhstan are Face book and Instagram. In this work, we used domestic, Russian, foreign literature, articles in periodicals, comparison of competitors, and world statistics. The work consists in the analysis and generalization of existing knowledge to create recommendations for improving promotion in social networks of Travel Agency Travel Boutique LLP.

## Problem and Objective

Social media can play a very vital role for future sustainability of the tourism destination. Lack of knowledge on social media and ICT and its implication for sustainable tourism development amongst the stakeholders is a major issue in the area. Traditional marketing communications apply to older media: film, television, radio, billboards, face-to-face, physical print and placement / POP (point of purchase). These forms of traditional marketing can be far-reaching and have a lifespan time in advertising tourism business.

Introducing Social media information, technology and techniques alone will not meet the development challenge. For social media information and technology to succeed in Kazakhstan, education for all must be the first priority. Stakeholder's participation, awareness and education towards the right application of ICT are required for sustainability and positive experience for the stakeholders.

The purpose of the study is to analyze effective ways to use of social media in tourism business networks as a tool of mass marketing and tourism companies, promoting a tourism product. In this work, a comparative analysis of small scale tourist business industry companies competing in the market of Kazakhstan. To further Study their presence, behavior, community on social networks and the content plan on the business page of Travel Agency Travel Boutique LLP has been completely updated, the business page on Instagram has been opened.

## Literature Review

'Social Media' defines as, "Forms of electronic communication such as websites for social networking and micro blogging through which users create online communities to share information, ideas, personal messages, and other content (such as videos)". (<https://www.merriam-webster.com>. (n.d.). Retrieved

October 8, 2019, from Social media." Merriam-Webster.com Dictionary, Merriam-Webster)

Tourism is one of the very important industries in the world. The value and importance of tourism industry is very high for every country because it contributes far more and much wider. Tourism brings benefits and advantages and contributes in the overall growth and development of the economy of a country and also in progress of the society and social structure of a country. It also helps and motivates in preserving of natural resources. The challenge of government involvement in tourism development is to determine the appropriate level of involvement in order to successfully regulate the activities of individuals and businesses. Such debate has been controversial in literature as reflected in

the writings by free-market enthusiasts. (tourism. (n.d.). Retrieved December 8, 2019, from Hume, 1886; Hayek, 1988 ;

Friedman, 1962)

This industry is driven by tourists. These tourists are its primary and only customer segment who show the need and desire to visit places for different reasons. It is also driven by the progress and development in its value chain industries in providing more services, facilities, convenience, and thorough social media connectivity, to its customers segment to make travel and tourism more desirable, easy and attractive. Tourism industry is one of the top sources for employment across the world helping in generating about 10% of employment. It also contributes about 10% of the global GDP and therefore becoming an important factor for economic growth in the world and for every country.

Small media business is an independently owned and operated company that is limited in size and in revenue depending on the industry as per their gross domestic product which, “is the standard measure of the value added created through the production of goods and services in a country during a certain period. As such, it also measures the income earned from that production, or the total amount spent on final goods and services (less imports). (gross-domestic-product. (n.d.). Retrieved December 18, 2019, from ([data.oecd.org › gdp › gross-domestic-product-gdp](http://data.oecd.org/gdp/gross-domestic-product-gdp))). Additionally, tourism innovation is shaped by a number of distinctive characteristics of the sector, the complex nature of the total tourism experience,

the challenges of the temporality and spatiality of demand and production, the embeddedness of tourism in wider communities, as well as in the natural environment. (Tourism innovation. (n.d.). Retrieved November 6,

2019, from (C. Michael Hall, Allan M. Williams, 2019-2nd Edition)

According to Finprom.kz analytical service, today Kazakhstan is in 57th place in the world in terms of Internet speed, and among the countries of the Eurasian Economic Union in 3rd place (after Russia and Belarus). From 2013 to 2018 the number of Internet users increased by 654.6 thousand people, of which over the last year the highest growth was recorded in Astana - 675.3 thousand subscribers (from 192.5 thousand earlier), in Almaty (578, 9 thousand) and in the Almaty region (173.1 thousand). Of course, the speed of the Kazakhstan Internet wishes to leave the best - only 28.9 Mb / s. For comparison, the Internet speed in Singapore is 5 times higher and amounts to 184 Mb/s. (In terms of

internet speed. (n.d.). Retrieved November 28, 2019, from <https://news.mail.ru/society/35153457/?frommail=1>)

Today, the number of social networks has exceeded 200. All of them differ in the geography of distribution, social orientation and content. Brian Solis, a digital analyst studying the impact of disruptive technology on business and society, created in 2008. In conjunction with the interactive agency JESS3 - the Conversation Prism, Prism is a landscape map of social networks that tracks dominant and promising social networks as they are used in everyday life. The map was updated several times; the latest changes were made in 2013. (Number of social networks. (n.d.). Retrieved October 16, 2019, from Conversation Prism5.0, Brian Solis & JESS3)

According to GSMA Intelligence research, at the end of 2017, the Commonwealth of Independent States had 232 million unique mobile subscribers, which corresponds to a penetration rate of 80%. Slightly behind developed markets such as Europe (85%) and North America (84%), but ahead of Latin America and the Asian region (67%). It is planned that the number of mobile subscribers by 2025 can reach 242 million with a penetration rate of 82%. (GSMA intelligence research. (n.d.). Retrieved November

10, 2019, from <https://www.gsmainelligence.com/research/2018/10/the-mobile-economy-russia-cis-2018/704>)

### Research Methodology

This research benefits from qualitative method to identify the current barriers and opportunities of Social media and its role in sustainable tourism development in Kazakhstan. The data is collected through in-depth data details of facts and face to face interviews with operators of tourism in Kazakhstan. In a qualitative study, interviews are the key and help researchers to focus directly on the research topic by providing perceived causal inference and explanations of the research, Interviews are the preferred method of data collection when a researcher intends to probe deeper and ask follow-up questions to the participant's previous responses; interviews have a better rate of response. \*Source: (Stentz et al., 2012, Kipkulei, 2013, Halpern & Leite, 2015). In a quantitative study the data of World Trade Organization predicts that rich tourists will prefer Asian destinations to European ones.

Kazakhstan's position as economic and political leader of Central Asia is giving her an advantage to develop tourism. (world trade organization. (n.d.). Retrieved October 9, 2019, from [\\*\(http://www2.unwto.org/\)](http://www2.unwto.org/))

The most sought after social networks in the world is Facebook. The number of active users in October 2018 exceeded 2.2 billion people. In second place is YouTube - 1.9 billion people. Whatsapp and Facebook Messenger took third and fourth place - 1.5 and 1.3 billion people. respectively. They are followed by social platforms popular in Asian countries. The number of registered Instagram users reached 1 billion people, Twitter - 335 million people, LinkedIn - 303 million. According to the Hootsuite Enterprise and We Are Social analytical agency, which publishes annual reports in a regional context, Facebook and Instagram held strong positions in Kazakhstan in 2017. So, the total number of active Kazakhstan users per month on Facebook amounted to 5.8 million people, an increase from last year's indicator of 87%. 43% accessed the network via mobile phones. Of these, 55% are women and 45% are men. The total number of active Kazakhstan users per month on Instagram is 5.1 million people, an increase from last year's figure of 28%. Of these, 57% are women and 43% are men. (Number of active users. (n.d.). Retrieved December 20, 2019, from [\\*\(https://wearesocial.com/blog/2018/10/thestate-of-the-internet-in-q4-2018?mc\\_cid=68bb6219b9&mc\\_eid=63437d0cb2\)](https://wearesocial.com/blog/2018/10/thestate-of-the-internet-in-q4-2018?mc_cid=68bb6219b9&mc_eid=63437d0cb2))

#### Data Analysis and Findings

Kazakhstan has natural beauties that can be used as touristic destinations. The country has numerous national parks, more than 100 touristic health center, and more than 9 thousands historical and archeological monuments. Touristic facilities in Tengri Mountains, in still developing Schuchinsk – Borovoye touristic region (Akmola Province), and in historical cities such as Otrar, Turkistan and Sauran especially appeal tourists. Schuchinsk – Borovoye region acquired “special economic region” status and carries a huge potential for tourism investments.

The Number of Foreign Tourists Coming to Kazakhstan and Kazakh Tourists Going to Foreign Destinations.

**Table: 1 – Foreign Tourists visit data to Kazakhstan**

	Column A (2008)	Column B (2009)	Column C (2010)	Column D (2011)
The number of foreign tourists coming to Kazakhstan	5,243,000	6,414,000	7,412,300	8,020,400

The number of Cossack tourists going to foreign destinations	3,447,000	3,118,000	3,393,000	4,093,000
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\*(Source: Statistics Agency of the Republic of Kazakhstan, Retrieved October 20, 2019)

Next, an audit of the business pages of social networks (Facebook, Instagram) of competitors was conducted. The study period is June 2018, the beginning of the summer season, the vacation period. For analysis, we consider the major players in the tourism market of Kazakhstan: tour operators Tez Tour and Kaz Tour.

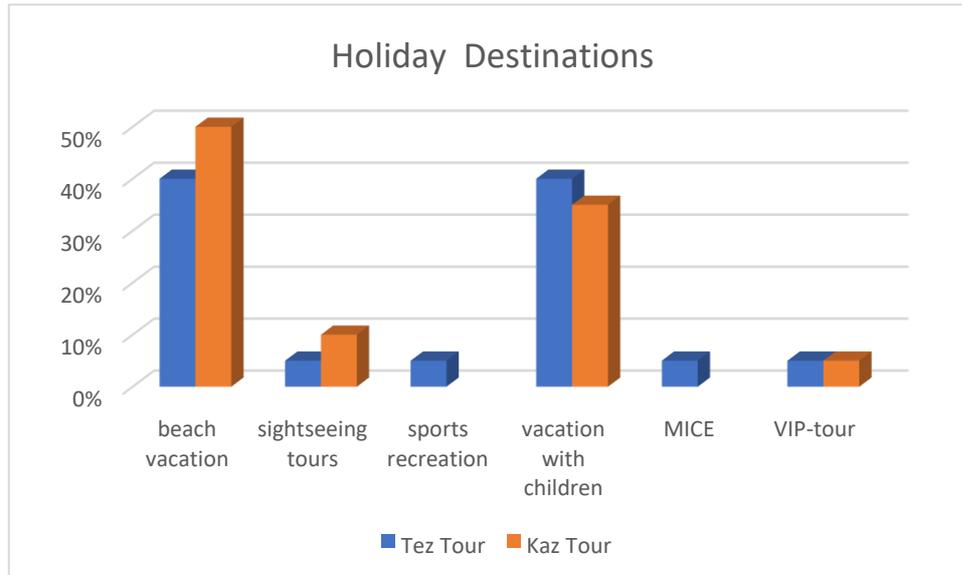
The leader in the number of subscribers is the tour operator Tez Tour is a major travel operator operating in the market since 1994. It has 30 branches worldwide, including in Kazakhstan of total 6 branches. The company has more than 2,000 employees and collaborates with 15,000 international tourist companies. Tez Tour offers more than 30 countries for recreation and specializes in the following areas:

1. Beach vacation
2. Sightseeing tours
3. Sports recreation and skiing
4. Family vacation with children
5. MICE, corporate service, organization of visiting conferences, seminars.

Kaz Tour, the main competitor of Tez Tour, has been operating in the market since 2001, currently collaborating with a major international tour operator TUI. The company has about a total 100 employees. It has 15 branches throughout Kazakhstan. Kaz Tour offers 8 countries for recreation and specializes in the following areas:

1. Beach vacation
2. Sightseeing tours
3. Teenager vacation recreation
4. Family vacation with children
5. VIP Tours

### **Graph 1 - Holiday destination of Tez Tour and Kaz Tour**



(Number of subscribers. (n.d.). Retrieved December 6, 2019, from [www.tez-tour.com](http://www.tez-tour.com)),( Holiday destination numbers. (n.d.). Retrieved December 6, 2019, from [www.itours.kz](http://www.itours.kz))

### Summary

This concluding chapter highlights the various concepts, themes, and issues rose regarding the role of social media in the field of tourism in development of Kazakhstan. It concludes by considering four concepts: the nature of development; the nature of the tourism industry; the nature of tourists; and the nature of the destination. The growth in travel related applications is likely to continue and tourism industry has to understand the motivating factors and travelers needs in order to make social media connecting communities based on mutual interests.

Implementing digital mobility in tourism and social media activities enable tourism industry to have appropriate insight in the world of tourists. Marketing communications will be mostly concentrated on the improvement of relationships in social media and adapting to tourists’ needs. Social media has been recognized as one of important competitive tools in terms of tourism marketing. Tourism need to engage their tourists with multichannel integrated communications and encourage them to talk about and recommend good experiences.

With this relationship of tourism and social media, it will be able to create brand awareness and brand resonance. This ongoing sustainable relationship can ultimately transform consumers into brand supporters, volunteer marketing members, and drive the most powerful level of consumer relations. One important requirement to be a strong brand in the online environment and social media is the belief

of community and people. Some social media designed for travelling are becoming more and more popular, and they will probably evolve into a primary source of information related to travelling.

## Conclusion

In conclusion and engaging with travelers on real-time social media have huge implications for the travel industry. Today tourists encounter with the new digital technology that can help them improve services and make their online experiences more personalized and more relevant the Web.

Beside many advantages of the next generation technology, probably, the big challenge for advanced ICT in the future will be facing with privacy and information reliability.

In essence, then, the critical voices of experts, and the various studies conducted on domestic and regional tourism in regions outside Almaty and North Kazakhstan have yet to disturb the ethnocentric foundations of the field, which emerge from the widely held assumption that tourists come from the West and Asian countries that 'the modern tourism industry' is essentially important with connection of Social media in its origins to Central Asian region and Kazakhstan.

## Recommendations

This research focused on understanding and reviews the volume of tourism operator flow of using the Social network and its technologies for future investigation and study. In essence, it should further expand the study to all Central Asian countries and whole world in order to foresee the demand and networking of information and communication inside and outside tourism in Kazakhstan. Furthermore, cases of study on social media development government should take actions on regulating laws and implementing them. The aim of research study focused on understanding reach, adherence, barriers and cost is recommended. Improvements in the collection, storage, analysis and visualization of big data will be required. New theoretical models and evaluation strategies will be required to educate present and future students, tourism operators, local business owners, policy makers, and recommend publishing more articles and books case study and more service if needed.

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# **Improving the marketing strategies of automotive manufacturers in modern conditions on the example of Toyota Center Aktau.**

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## **Abstract**

The automotive market is a significant component of both the global commodity market and the commodity market and the economy of Kazakhstan as a whole. The car market is the most competitive market, and therefore all new products and developments are introduced first here, including in marketing.

The paper considers the essence of the marketing strategy, the stages of its development and the main marketing strategies of car manufacturers in the global passenger car market and their transformation depending on changes in market conditions: the influence of the state, consumer intentions, changes in market conditions and their sizes.

An own classification of the marketing strategies of car manufacturers in the global automotive market has been developed. A methodology for choosing a strategy and algorithms for its implementation are proposed. A model for the creation and implementation of a marketing strategy for manufacturers is built.

**Key words:** automobile market, strategy, marketing, competitiveness, market share.

## **Statement of the main research material.**

The automobile market and the car assembly industry have the greatest impact on the economy and, in particular, on the country's economic growth. Thus, almost 8.2 million units of cars (together with light commercial vehicles) worth almost \$ 2 trillion are produced in the world, and with related industries this is almost 5% of the world's GDP.

The car market is very cyclical in nature. Thus, the automotive market has been in a crisis of sales over the past 15 years already several times. At the same time, the market is a leader in innovation and technology in both manufacturing and marketing.

The automotive market is characterized by a great influence on the marketing strategies of sellers and manufacturers, implementing their plans and strategic intentions with the help of huge resources: human, capital, influence on the governments of countries and the like.

Globalization, restrictions on natural resources, increasing the cost of natural resources, digitalization

(Internet coverage) and more and more competition between new players, the influence of states characterizes the automotive industry. Therefore, choosing the right marketing strategy among hundreds of existing ones is displayed on the results of companies, and among them the main ones are profit, sales and market share.

**The relevance of the topic**, in my opinion, lies in choosing the right marketing strategy among hundreds of existing ones, since the wrong strategy leads to lower sales, a decrease in market share and losses, and then to bankruptcy or takeover of another company, which is very relevant in the global car market

**The results of studies of the marketing activities** of enterprises are presented in the works of many scientists. Among them, the work on the study of marketing strategies A.F. Pavlenko, F. Kotler, V.P. Pilipchuk, Kudenko N.V., Smerichevsky S.V., V. Kim Chan and others.

An analysis of scientific papers on the marketing activities of enterprises revealed that it is advisable to conduct a study aimed at developing methodological support and a methodology for improving the marketing strategies of automobile manufacturers.

### **Statement of the task**

Each industry has its own characteristics, and the automobile is no exception. The basis of the marketing and management activities of global automobile corporations is the development of marketing strategies in the global market. As practice shows, a wrongly chosen and developed strategy can lead to lower sales, profits, and even bankruptcy.

Therefore, it is important to choose the right marketing strategy among hundreds of existing ones, based on an effective methodology and methodological support.

### **Methodology**

The theoretical and methodological basis was provided by such general scientific methods as system analysis, synthesis, induction, deduction, abstracting, as well as special scientific methods, including: methods of sociological research and comparisons.

The research materials were theoretical works of scientists, practical knowledge and my experience in the automotive market of Kazakhstan.

### **The results of the study**

Effective functioning in market conditions provides for the creation and implementation by each enterprise of a marketing management system and the creation of marketing strategies, which makes

it possible to quickly adapt to the environment.

Analysis of theoretical and practical sources showed that today there is no single universal approach to the development and use of marketing strategies by manufacturers. It is known that there are no two enterprises with identical management models, since management methods are constantly being adjusted taking into account changes in market conditions, the level of competition, achievements of scientific and technological progress, etc.

Most of the theoretical models studied that describe the process of developing a marketing strategy do not reflect a clear mechanism for the application and implementation of theoretical aspects of marketing in the practice of production enterprises. This situation helps to improve the modeling of marketing strategies of manufacturers.

Next, you need to determine the target customers and select the main group of customers, on the satisfaction of which, the company concentrates maximum efforts. When developing marketing strategies, it is necessary to evaluate consumers - their preferences, solvency, etc., conduct an analysis of the company's capabilities to meet the needs of consumers, and take into account the action of competitors. When planning, deserves special attention to study the experience of leading enterprises.

The competitive strategy is determined: mass character, brand value and strength, advancing strategies, mediation and model line availability. After that, it is appropriate to develop an action plan in the target market.

Therefore, it is necessary to determine the strategy of market positions: leadership strategies, defense strategies, candidates' strategies. The next step is the definition of marketing innovations and their possible practical application. Here we include the creation of non-standard and new marketing tools and actions on the market.

Table 1. Classification of marketing strategies that are widely used by automakers

**Source:** author's own research.

At this stage, decisions are made to ensure procurement plans for the product, price, communication and sales and service policies to influence the target market entities in order to obtain the desired effect.

When developing a set of measures, it is necessary to take into account the needs of customers. In particular, special attention should be paid to the sale policy, on the principles of harmonization, since it is precisely this that underlies the functions performed by such enterprises.

Here is the planning and budgeting of motivation and training programs for staff, distribution

channels and customers. Next, it is necessary to carry out planning and determination of the financial results of the selected strategies, investments, an assessment of capital investments, sources of financing. And at the final stage, a risk assessment of the strategy takes place.

The financial, production, market, external risks and their probability and strength of impact are determined. Such a model cannot be effective without a few touches - it is setting deadlines for implementation and those responsible for the plan of specific actions, as well as constant periodic monitoring of the implementation and implementation of the strategy and, of course, correlation. Setting deadlines for implementation and those responsible for the plan of specific actions must be carried out at each stage. Ensuring effective marketing management of enterprises is possible only due to the coordinated work of all parts of the enterprise. Therefore, the management function "control" is designed to evaluate the performance of the enterprise.

Such an assessment should identify possible deviations of actual results from the planned ones, the reasons for such deviations of possible problems of the enterprise. That is, to determine whether the achieved results are consistent with the set goals. Provided that the obtained results of the enterprise's activities in the automotive market are consistent, it is recommended to support the implementation of relevant marketing plans and the use of marketing tools. In the case of a negative assessment of the results of the enterprise, that is, the identification of deviations of actual indicators from the planned ones, it is necessary to identify and investigate the cause of such deviations and make appropriate adjustments.

The proposed model for creating and implementing an enterprise marketing strategy in the global automobile market:

- can be used in the activities of most enterprises - sufficiently flexible and adaptive to changes in the external and internal environment of marketing management activities
- takes into account the impact of innovation in marketing activities on the marketing management process of enterprises
- takes into account the main management functions: planning, organization, analysis, motivation, control, coordination, regulation, used in the activities of the studied enterprises
- characterized by systematic nature and is closely related to the general planning of the activities of any enterprise
- built on materials from a practical study of the state of marketing management, analysis of the use of marketing of modern enterprises in the car market.

## **CONCLUSIONS**

So, based on the preferences of the developed model, we can draw the following conclusions. In the process of developing marketing strategies, the experience of leading companies operating in this market is important, since it can help determine the strategic direction of development and contribute to the distribution of limited resources of the enterprise.

It is important for marketers to work effectively in times of budget cuts and increased requirements to justify marketing costs. It is very important not only to return the investment, but also to advertise in such a way as to promote precisely your company, and not competitors.

Thus, the proposed model for creating and implementing a marketing strategy for manufacturers can be an effective tool and methodology for the strategic marketing of automobile corporations. Using the model, the enterprise makes the right choice of a marketing strategy among hundreds of existing ones, since an incorrectly chosen strategy leads to a decrease in sales, a decrease in market share and losses, and then to bankruptcy or takeover of another company, which is very relevant in the global car market.

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# Экспорт продовольственного зерна в РК

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## Введение и цель исследования

За последние годы мировая экономика сталкивается с явным замедлением роста по ряду причин:

- Торговые конфликты между отдельными странами
- Неопределенность, связанная с геополитическими рисками
- Понижение активности в обрабатывающей промышленности
- Денежно-кредитная политика

В то же время, в Республике Казахстан наблюдается высокая чувствительность состояния экономики по отношению к негативному воздействию от мирового экономического спада. Определенная зависимость от сырьевых ресурсов в РК подвергает экономику страны к нестабильной ситуации во всех сферах. Так как сырьевые ресурсы занимают наибольшую долю в ВВП страны, экономика Казахстана подвержена непрерывным флуктуациям на фоне изменений на мировых рынках. В целях минимизации рисков путем диверсификации экономической деятельности в стране, необходимо поспособствовать развитию перспективных отраслей производства, не связанных с добычей сырьевых ресурсов.

Одной из перспективных отраслей, способных минимизировать риски влияния вышеуказанных факторов, является аграрная отрасль, которая представляет около 70% валовой продукции сельского хозяйства. Ввиду изменений произошедших за последние 20 лет на рынке сельского хозяйства, появилась необходимость изучения системы функционирования данного рынка. Малая часть развитого промышленного комплекса по производству зерна, полученное в наследство после распада СССР, трансформировалась в условиях нового спроса, в то время большинство игроков агропромышленного комплекса осуществляют свою деятельность без изменений в бизнес-процессах. В целом на рынке, в большую степень произошла переориентация на экспортные направления. Но, учитывая политические и экономические изменения на внутреннем и внешнем рынках, большинство участников цепочки производства зерна не имеет возможности, либо недостаточно осведомлены о возможностях развития экспортных направлений.

Исходя из вышеуказанных причин, актуальность данной темы исследования определяется необходимостью изучения новой цепочки производства продовольственного зерна в РК, и поиска возможностей развития экспортных направлений.

## **Литературный обзор**

Различные теоретические аспекты рынка продовольственного зерна изучались многими зарубежными и отечественными учеными.

Для данной исследовательской работы основные определения и понятия, связанные с функционированием рынка сельского хозяйства взяты из научной диссертации Садыбековой К.К. «Реализация зерна в условиях формирования Общего аграрного рынка СНГ», в которой детально рассмотрены все важнейшие аспекты анализа производства и реализации зерна в Республике Казахстан, доходчиво раскрыта тема структуры и функции зернового сегмента стран-участников СНГ.

Об актуальности темы и необходимости проведения анализа рынка продовольственного зерна свидетельствует исследовательская работа Кульчиковой Ж.Т. «Развитие рынка зерна в северном Казахстане», которая рассматривает и обобщает наиболее интересные внутренние и внешние факторы, прямо или косвенно влияющие на эффективность развития зернового рынка.

Для более подробной осведомленности и тенденциях на глобальном рынке зерна, было изучена исследование Карпенко Г.Г. и Антонцева А.А. «Основные тенденции развития производства и рынка зерновых культур России и мировом пространстве». Наиболее важным аспектом исследования является выявление ограничений, влияющих на производство зерновых культур, и предложения рекомендаций для их устранения.

Также, в процессе исследования были изучены научные статьи Григорука В.В. «Казахстан на продовольственном рынке ЕврАзЭС» и Молдахметова Р.К. «Рынок зерна Казахстана в условиях таможенного союза», в которых обсуждается тема расширения взаимной торговли, усиления приграничного сотрудничества, особенностей рынка продовольственного зерна в соседних странах, важность развития интеграционных процессов аграрного рынка, а также изучены предпосылки его развития в условиях Таможенного союза.

Более того, система ценообразования продовольственного зерна в РК и определение цепочки добавленной стоимости была создана на основе исследования корпорации Quorum «Grain supply chain study» и учебника «Introduction to Agronomy: Food, Crops, and Environment» написанной учеными Шеффер К.К. и Монкада К.М., в которых детально описаны подходы проведения анализа рынка зерновых, а также подробно описаны все возможные участники цепочки производства и сбыта продовольственного зерна.

Также, были изучены исследовательские работы Шаймерденовой Д.А. «Сравнительная характеристика классификаций зерна мягкой пшеницы Казахстана и основных зернопроизводящих стран», Масловой В.В., Авдеева М.С., «• Competitiveness of Agricultural Products in the Eurasian Economic Union», Вилсона В.В., Карлсона К.Е., Дал Б.Л. «Logistics and Supply Chain Strategies in Grain Exporting».

## **Методология исследования**

**Объект исследования** – зерновое хозяйство агропромышленного комплекса Республики Казахстан.

**Предмет исследования** - совокупность организационно-экономических отношений, возникающих в процессе функционирования рынка продовольственного зерна.

**Теоретико-методологическую основу** исследования составили научные труды ведущих зарубежных и отечественных ученых и специалистов в области сельского хозяйства, экономики АПК, теории формирования и развития зернового рынка.

Исследование проводилось на основе сравнительного анализа статистических данных и проведенных интервью с экспертами в сфере производства и реализации продукции сельского хозяйства в РК.

Информационную базу исследовательской работы составили статистические данные Комитета Статистики МНЭ РК, информационные бюллетени международных организаций (Trademap), Интернет-ресурсы различных институтов и агентств, данные предоставленные производственными и сервисными организациями в РК. Также, в исследовании были использованы законодательные и нормативно-правовые акты РК, регулирующие вопросы развития агропромышленного комплекса.

## **Анализ данных**

### **Рынок зерновых в Казахстане по итогам 2019 года**

Производство зерна является одной из самых приоритетных отраслей как сельского хозяйства, так и в целом экономики Республики Казахстан. Казахстан является одним из лидеров по производству зерновых культур среди стран Евразийского региона. В стране насчитывается около 22 млн га посевных площадей, около 75% которых используются для производства зерновых культур. Ежегодно в республике производится порядка 18 млн тонн зерна, в среднем 6 млн из которых вывозится на экспорт (основным экспортным продуктом является пшеница мягких сортов – 85% экспорта зерна). Средний ежегодный объем внутреннего потребления зерна составляет 12 млн тонн.

Основной вклад в производство продовольственного зерна вносят предприятия северных регионов страны (Акмолинская, Костанайская, Северо-Казахстанская области), которые производят около 80% от общего объема.

За последние 5 лет объем производства зерновых колебался в пределах 16,9-20,2 млн тонн. Благоприятными выдались 2016 и 2017 гг., 2019 явился рекордно низким годом – валовой сбор составил 16,87 млн. На изменение объема производства повлияли два фактора – изменение посевных площадей и неблагоприятные климатические условия.

**Рисунок 1. Динамика валового сбора зерновых культур в Казахстане после доработки, млн.тонн**



Источник: Комитет РК по статистике

Валовой сбор зерновых культур по видам за 2017-2019 годы показан в таблице 1. В 2019 году производство зерновых уменьшилось на 17,3% по сравнению с 2018 годом, пшеницы – на 30 %, ячменя – на 4,4%, овса – на 25,8%, гречихи – на 80,4%. Отмечен небольшой рост производства ржи и прочих зерновых на 4% и 64 % соответственно.

**Таблица 1. Валовой сбор зерновых культур по видам в весе после доработки за 2013-2014 гг., тыс. тонн**

	2017 г.	2018 г.	2019
<b>Зерновые (включая рис) и бобовые культуры</b>	20 095,6	19 790,7	16 867,9
<b>из них</b>			
<b>пшеница озимая и яровая</b>	15 879	14 965	12 272
<b>ячмень озимый и яровой</b>	3 520	4 248	4 070
<b>рожь озимая и яровая</b>	41	24	25
<b>овес</b>	307	361	287
<b>гречиха</b>	136	92	51

<b>прочие зерновые</b>	212	100	163
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*Источник: Комитет РК по статистике*

Баланс производства и потребления зерна в Казахстане показывает полную обеспеченность внутреннего рынка собственным производством. В 2019 году среднегодовой объем импорта зерновых составил 416,9 тыс. тонн, что является очень высоким показателем для одного из лидеров по экспорту зерна в мире (на 173% по сравнению с 2018 годом). Столь высокий показатель импорта обусловлен низкой урожайностью. Из-за неблагоприятных погодных условий сезона 2019 года, объем, ассортимент и качество продукции значительно понизилось, что также побудило переработчиков использовать импортное сырье для производства специализированной продукции (например: пшеница твердых сортов для производства макаронных изделий).

**Таблица 2. Емкость рынка зерна\* в Казахстане, тыс. тонн**

<b>Показатели</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Производство	18 250,6	20 186,5	20 095,6	19 790,7	16 867,9
Импорт	132,8	31,0	63,0	152,4	416,9
Экспорт	4 373,0	5 399,2	5 308,8	8 121,0	7 224,5
Реализация на внутреннем рынке (с учетом переходящих запасов)	14 010,4	14 818,3	14 849,9	11 822,1	10 060,3
Доля импорта во внутреннем рынке, %	0,9	0,2	0,4	1,3	4,1
Доля экспорта в производстве, %	24,0	26,7	26,4	41,0	42,8

*Источник: Комитет РК по статистике, Комитет таможенного контроля Министерства финансов РК*

*\*- В понятие зерна входит – пшеница, меслин, рожь, ячмень, овес, кукуруза, рис, сорго, гречиха, просо, семена канареечника, прочие злаки*

Динамика размеров посевных площадей и урожайности зерна приведена в рисунках 2 и 3. Как видно на приведенном ниже рисунке, динамика посевных площадей зерновых культур изменялась как в сторону увеличения, так и снижения. Однако по пшенице наблюдается тенденция снижения посевных площадей, за счет увеличения площадей под другие культуры. Урожайность пшеницы также снижается из-за погодных условий (**рисунок 3**).

**Рисунок 2. Динамика посевных площадей зерновых культур и пшеницы в Казахстане, млн. га**



*Источник: Комитет РК по статистике*

**Рисунок 3. Динамика урожайности зерновых культур и пшеницы в Казахстане, 1 центнер с га**



*Источник: Комитет РК по статистике*

Для зернового производства в Казахстане характерно монокультурное земледелие. В настоящее время доминирующая часть (свыше 73%) валового сбора зерна принадлежит пшенице. Около 24% зерновых приходится на долю ячменя. В структуре производства зерновых овес и гречиха занимают незначительные доли – порядка 1,7 и 0,3% соответственно. Остальной объем принадлежит другим видам зерновых культур (рожь, просо и др.).

Следует отметить, в последнее время был взят курс на диверсификацию производства растениеводческой продукции с акцентом на увеличение доли других видов зерна, а также масличных культур, по причине насыщения рынка поставщиками из Российской Федерации (главное экспортное направление: страны ЕАЭС и ЕС) и Пакистана (главное экспортное направление: Афганистан)

В Казахстане в отличие от России и Украины в структуре производства зерновых (в том числе пшеницы) преобладают яровые культуры, их доли составляют около 93-96% (рисунок 4).

**Рисунок 4. Доля озимых и яровых в производстве зерновых культур, %**



Источник: Комитет РК по статистике

\* Яровые растения высевают весной, за летние месяцы они проходят полный цикл развития и осенью дают урожай. Озимые растения сеют осенью, до наступления зимы они прорастают, а весной продолжают свой жизненный цикл и созревают несколько раньше, чем яровые. Озимую и яровую формы имеют пшеница, рожь, ячмень и тритикале. Все остальные злаки бывают только яровыми. Озимые сорта, как правило, дают более высокий урожай, однако их можно выращивать в районах с высоким снежным покровом и достаточно мягкими зимами.

Если в структуре зерна преобладает пшеница, то в структуре производства пшеницы доминирующую часть (98%) занимает мягкая пшеница, твердая - всего 2%. Как правило, мягкая пшеница выращивается во всех регионах республики, а твердая пшеница только в северном регионе и Актыубинской области. Наибольшее производство твердой пшеницы сосредоточено в Костанайской области.

Ниже приводится динамика экспорта зерна как основного фактора, влияющего на внутреннюю конъюнктуру рынка (рисунок 5). В экспортно-импортном балансе по зерну экспорт значительно преобладает над импортом. В структуре внешнеторгового оборота зерна экспорт занимает 99,8-99,9%. Доля пшеницы в экспорте составляет порядка свыше 80%.

Экспортные поставки казахстанского зерна в течение последних 5 лет характеризовались разносторонним изменением, что обусловлено мировой конъюнктурой, а также ситуацией на зерновом рынке России и Украины. Так, наибольшие объемы поставки зерна на внешние рынки отмечались в 2018 году в объеме 8,1 млн. тонн зерновых, за счет высокого урожая. За последние

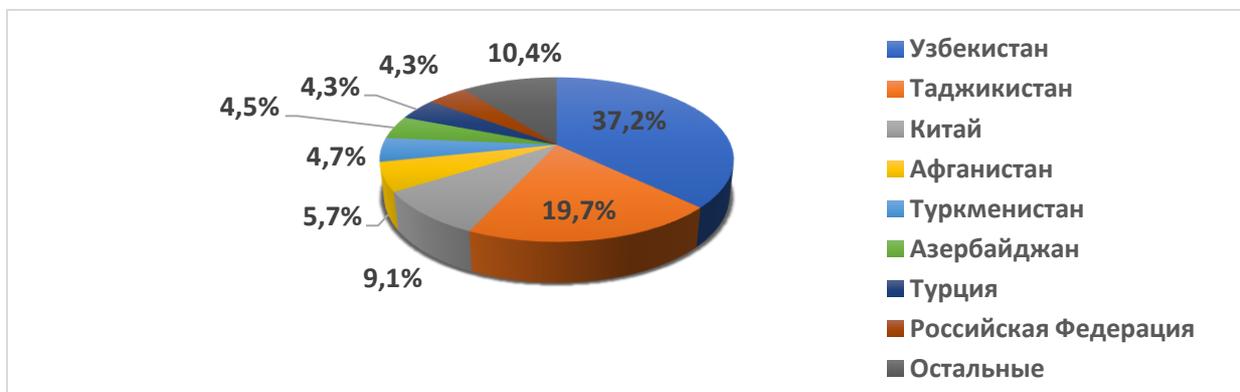
годы наименьший объем экспорта зерновых отмечен в 2015 году (4374 тыс. тонн), из них объем пшеницы – 3635 тыс. тонн, ячменя – 632 тыс. тонн.

**Рисунок 5. Динамика экспорта зерновых из Казахстана, тыс. тонн**



*Источник: Комитет таможенного контроля МФ РК и Комитет РК по статистике*  
 Структура импортеров казахстанской пшеницы (как доминирующей культуры)

**Рисунок 6. Структура импортеров казахстанской пшеницы в 2019 г.**



*Источник: TradeMap*

В 2019 году казахстанская пшеница была экспортирована в 24 страны мира. Главными потребителями казахстанской пшеницы являлись страны СНГ, на их долю в 2019 году пришлось 70,5 % от общего объема экспорта из Казахстана. Узбекистан являлся основным импортером пшеницы и составил 37,2% от общего объема экспорта или 372,7 млн долларов США. Традиционными и перспективными рынками сбыта остаются Россия, Китай, Турция, Афганистан. Также основными потребителями казахстанской пшеницы являются страны Центральной Азии: Таджикистан (19,7%), Туркменистан (4,7%), Азербайджан (с долей 4,5%).

*\*Примечательно, наибольшее влияние на рост совокупного объема экспорта пшеницы повлияла политика правительства Узбекистана, заключающаяся в увеличении акцента на обрабатывающий сектор, а именно, значительное снижение таможенных пошлин на импорт растительных сырьевых ресурсов, и ограничение импорта конечной продукции (мука, крупы и тд). Более того, в Узбекистане наблюдается наличие государственных программ поддержки обрабатывающего сектора, в результате которых в соседней республике, после принятия вышеуказанных мер, появилось большое количество перерабатывающих предприятий (мельничные и фасовочные комплексы). В результате чего, Узбекистан стал главным экспортером казахстанской пшеницы (экспорт пшеницы в Узбекистан увеличился более чем на 80%), и главным конкурентом на экспортных рынках переработанной продукции (на данный момент, узбекские предприятия вытесняют казахстанские в Афганистане и странах Центральной Азии). Более того, диверсификация политики Узбекистана, позволило соседней стране стать из главного экспортера переработанной продукции в крупнейшего экспортера сырьевых ресурсов, в результате чего, многие перерабатывающие предприятия находятся на грани банкротства (средний уровень загрузки предприятий составляет примерно 25%). Также, узбекистанские трейдеры/экспортеры стали одними из главных игроков на рынке, значительно влияющих на конечную стоимость продукции и «диктующих» условия.*

Из стран дальнего зарубежья казахстанскую пшеницу в 2019 году импортировали Италия, Великобритания, Тунис, Греция и другие страны. Собственная потребность страны в зерне составляет 6 млн. тонн в год, а переходящий остаток - 4 миллиона тонн.

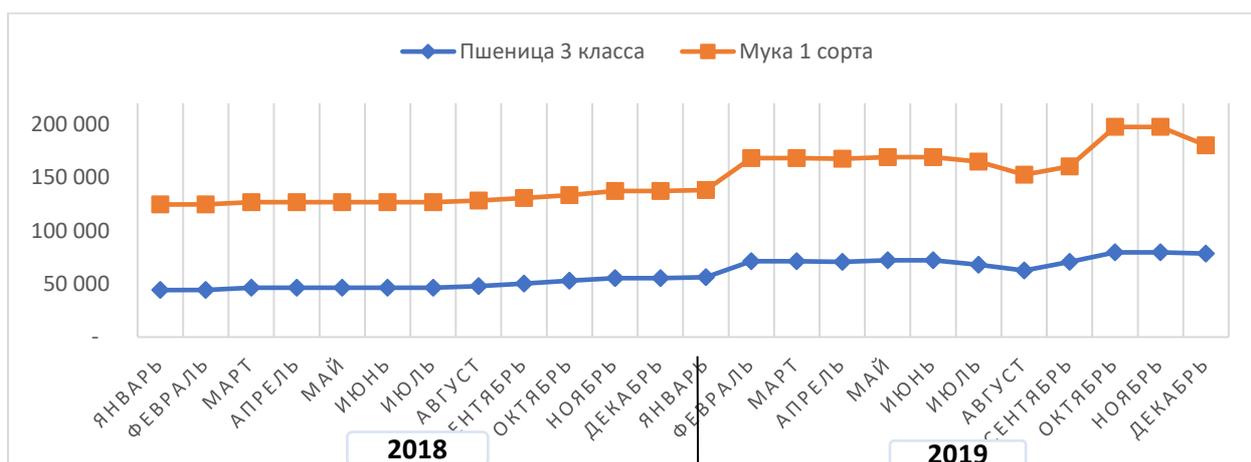
На **рисунке 7** представлены цены на муку 1 сорта и казахстанскую пшеницу 3 класса за 2018-2019 годы по месяцам. В среднем за 2019 год цены на пшеницу 3 класса по сравнению с 2018 годом значительно повысились - на 46,1%, по причине роста цен на сырьевые ресурсы, а также, в связи с рекордно низкой урожайностью. В течение 2018 года наблюдалась тенденция постепенного повышения цен, в 2019 году резкий рост цены сменился снижением в период массового сбора урожая, после чего цены продолжили свой рост. Среднегодовые цены установились на уровне 48 и 70 тыс. тенге за тонну соответственно за 2018 и 2019 гг.

По ценам на муку в течение 2018-2019 года наблюдалась тенденция роста, ежемесячное повышение на 1-3% привело к годовому росту цен на 20,7%. Так, оптовая цена на муку 1 сорта с 80 тенге за кг поднялась до 102 тенге за кг. Основными причинами роста цен явились:

- корректировка курса национальной валюты;
- повышение отпускных цен на муку на мельницах;
- увеличение тарифов на услуги мельниц и элеваторов;

- повышение среднемесячного уровня заработной платы у работников предприятий пищевой промышленности и торговли;
- рост цен на горюче-смазочные материалы;
- в течение 2019 года наблюдалась тенденция роста цен на пшеницу 3 класса;
- повышение себестоимости сырья.

**Рисунок 7. Средние цены на пшеницу 3 класса (с клейковиной 23-24%) и муку 1 сорта в РК за 2018-2019 гг.**

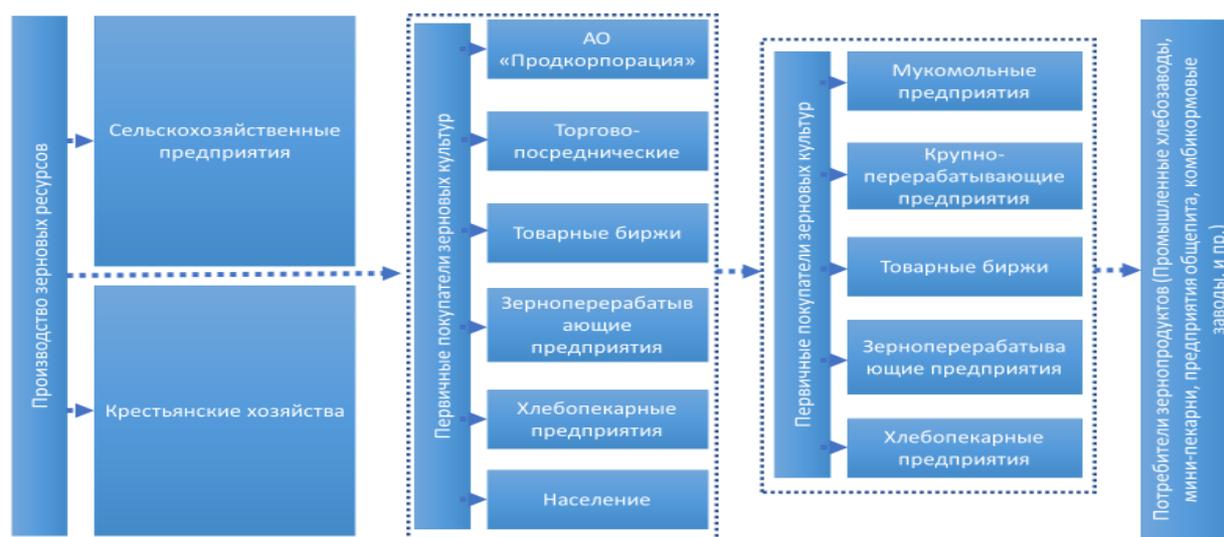


Источник: Агентство «КазахЗерно.kz»

\*Примечание: среднегодовые цены на пшеницу 3 класса установились на уровне 70,5 тыс. тенге в 2019 году, в 2018 году – 48,2 тыс. тенге, оптовые цены на муку 1 класса в 2019 году – 120,7 тенге/кг, 2018 году – 80,7 тенге/кг.

Баланс производства и потребления муки в Казахстане показывает обеспеченность внутреннего рынка собственным производством. В 2019 году среднегодовой объем импорта муки составил всего 3,7 тыс. тонн, что составляет во внутреннем потреблении всего 0,18%.

## Обзор цепочки добавленной стоимости



Система производства зерна включает в себя множество этапов, которые значительно повышают себестоимость конечной продукции. Первым этапом в цепочке ценностей продовольственного зерна является производство зерновых ресурсов, осуществляющееся сельскохозяйственными предприятиями/крестьянскими хозяйствами, и включающим ряд процедур (средняя стоимость пшеницы на этапе производства составляет 70500 тг за тонну):

1. Внесение удобрений (заблаговременно до посева, октябрь-ноябрь, через пару недель после сбора урожая)
2. Обработка почвы (март-апрель)
3. Подготовка семян к посеву (апрель-май)
4. Посев (май-июнь)
5. Уход за посевами (механическая и химическая обработка, июль-август)
6. Уборка урожая (август-сентябрь)

Средняя себестоимость продукта на этапе производства на 1 тонну при средней урожайности 15ц/га (тыс. тг):

Расходы	Средняя стоимость
Заработная плата	2-3
Горюче-смазочные материалы	4,5-5,5
Химпрепараты	2-3
Удобрения	0,5-1
Услуги хранения/обработки урожая	3,5-4,5
Семена	14-15
Общие и административные расходы	3-4

<b>Итого</b>	29,5 - 36 тысяч тенге
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Следующей группой в цепочке добавленной стоимости зерновых являются первичные покупатели зерновых культур (в среднем, добавленная стоимость от нижеприведенной группы предприятий составляет 15%-40% от закупочной стоимости) :

- Мукомольные предприятия
- Трейдеры/экспортные агенты
- Иностраные обрабатывающие предприятия
- Зерновые элеваторы

Также, себестоимость продовольственного зерна повышается в связи с большими расстояниями при транспортировке (средняя стоимость загруженного грузового 20т транспорта: при цене в 200 тг за километр), а также оплатой посреднических услуг (1-5% от общей стоимости закупа).

Третьим и заключительным этапом цепочки добавленной стоимости продовольственного зерна являются конечные потребители зернопродуктов (пункты сбыта товаров, хлебопекарные предприятия, заведения общепита и тд) и участники экспортных рынков.

Экспортная стоимость:

Средняя экспортная цена на пшеницу 3 класса (клейковина 23-24%) составляет 260 долларов США. Цена варьируется от станции отправления, условий поставки и способа фасовки.

<b>Наименование станции</b>	<b>Условия поставки</b>
ст. Петропавловск (ЮУЖД)	DAP
ст. Сары-агаш	DAP
ст. Луговая	DAP
ст. Тобол	DAP
порт Актау	FOB
ст. Бекабад	CPT
ст. Хайратон	CPT
ст. Тургунди	DAP

### **Заключение и рекомендации**

Проведенные исследования рынка продовольственного зерна в Республике Казахстан позволяют сделать следующие выводы и рекомендации:

1. Уточнено теоретическое представление о сущности и содержании зернового рынка как специфической экономической категории. Зерновой рынок является системообразующим звеном агропромышленного комплекса РК.
2. Эффективность зернового производства находится под влиянием следующих факторов:
  - ❖ Низкая урожайность/низкое качество зерна
    - Погодные условия
    - Человеческие ресурсы
      - Дефицит квалифицированных рабочих
      - Несвоевременная уборка урожая
        - Снижение качества/количества
    - Техническое оснащение
      - Устаревшая техническая база (с/х техника)
      - Высокие затраты на с/х технику и комплектующие
      - Необходимость внедрения современных технологий в производство (Технология точного земледелия)
    - Оборотные средства
      - Высокие затраты на топливо, пестициды, заработную плату
  - ❖ Девальвация
    - Практически все комплектующие для с/х техники импортируются
    - Цена на топливо напрямую связана с курсом тенге к иностранной валюте
    - При девальвации стоимость жизни повышается, соответственно необходимо повышать заработную плату
    - Химические препараты импортируются
  - ❖ Политические изменения
    - Введение Узбекистаном таможенных пошлин на ввоз муки, что негативно повлияло на внутренний рынок производства муки (рынок сбыта зерна). Поэтому, на данный момент, главными инфлюенсерами на рынке зерна в РК являются иностранные предприятия... (Узбекистан, Афганистан, Россия)
3. Посевные площади, как и объем производства зерновых культур не увеличились, в то время как объем экспорта увеличился примерно на 65% за последние 5 лет, что свидетельствует о насыщении внутреннего рынка продовольственными товарами и возможности их экспорта.
4. По результатам экспертного интервью, выявлено что состояние инфраструктуры для осуществления экспорта является недостаточно развитым (не хватает товарных вагонов,

отсутствие информационной системы бронирования логистического транспорта, отсутствия необходимого количества зерновых терминалов и тд)

Ввиду непостоянства рыночных условий и сильного влияния вышеуказанных факторов, игроки зерновой индустрии, в целях диверсификации рисков и сохранения конкурентоспособности, вынуждены искать новые рынки и способы сбыта продукции. Для эффективного осуществления экспорта продовольственного зерна в РК, предприятиям совместно с государственными органами, курирующими сельскохозяйственную отрасль, необходимо разработать единую систему экспорта продовольственного зерна. Также, в целях сохранения и стимулирования развития высокого уровня обрабатывающей промышленности в АПК, необходимо разработать программы государственной поддержки переработчиков и внедрить налоговые льготы для экспортеров обрабатывающего сектора, так как именно реализации продукции с наибольшей добавленной стоимостью способствует экономическому развитию в стране.

# The integrated supply chains in the field of the rail transportation in the Republic of Kazakhstan

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**Key words:** transportation, logistics, LPI -Logistics Performance Index, JSC- Joint Stock Company, freight rates, market range, railway infrastructure, FFC -freight forwarding companies, PL – Party Logistics, 1PL, 2PL, 3PL, 4PL, macro-, micro- and mega-logistics, KPI - key performance indicator

The globalization of markets, expansion of international cooperation and development of transport links have increased the competitiveness of transportation and logistics companies. The strategy for development of the transport and logistics centers in the Republic of Kazakhstan and program for building the transport infrastructure have been proposed by Nazarbayev N.A. in the *Western Gate of Kazakhstan Special Economic Zone (SEZ) and Eastern Gate of Kazakhstan Special Economic Zone (SEZ) Project* [1, <https://articlekz.com/article/8515>].

In recent years, the logistic services market has been rapidly developing in the country, and this is reflected in the World Bank's rating for the level of logistics development - LPI (Logistics Performance Index). Thus, in 2018, Kazakhstan took 71<sup>st</sup> place out of 160 countries, gaining six positions in the International Logistics Performance Rating compared to 2016 [1, <https://24.kz/ru/news/economy/item/255177-kazakhstan-podnyalsya-na-6-pozitsij-v-rejtinge-lpi-24.kz>].

The transport system of Kazakhstan is one of the key components of the Republic's infrastructures and has a major impact on the level of development of the national economy, as it has a strategic geographical location, which allows to get the essential source of revenue due to the active implementation of transit opportunities.

Currently, one of the most important national objectives is to ensure such a relation between monopoly and competition that does not cause the devastating consequences in the economy. *National*

*Company Kazakhstan Temir Zholy JSC (NC KTZ JSC)* is the single state rail carrier managing and owning the entire infrastructure.

The establishment and development of operating companies - owners of the private rolling stock in the railway sector lays the groundwork for introducing the competition in the goods transportation. Freight rates are the main instrument for regulating economic relations within the industry and determine the efficient location of the production facilities in the various regions of the country, as well as the production efficiency of existing enterprises; the level of freight rates influences on the volume, market range, sales and price of their products in the points of consumption.

A company owning the rolling stock (car fleet) has the right to offer its services to the customers at lower rates and sometimes at the higher rates than those set by the Railway Administrations. The industrial enterprises possessing their own freight cars have gained the opportunity to reduce costs in the transportation of their products. With increasing of the international export-import freight traffic, the demand for rolling stock from the private companies grows annually.

The pursued policy aimed at expanding the public access to railway infrastructure and promoting an equal approach to the operating companies shall give the certain positive results. In most countries, the state is responsible for infrastructure, and the transport services are provided by the commercial enterprises. The governments tend to prefer a concession system. Such an approach, in their opinion, provides the most palatable opportunity to take two following advantages: the government retains control over the infrastructure, and the transport service functions are performed in the competition for customers.

The share of transportation costs in the cost of production is relatively high and is equal to 15-20% compared to 7-8% in the developed market economies. Underdevelopment of the general national distribution system is the main reason for this situation, along with the significant territory and climatic conditions.

Kazakhstan (November 30, 2015) to the World Trade Organization (WTO) [WTO official website] intensifies the competition in the domestic freight forwarding services market due to facilitating the access for foreign companies. The national freight forwarding companies (FFC) should therefore strive to increase the level of their service up to the best global standards, i.e. 3PL and 4PL levels. Based on this definition, the single elements of logistics (such as operations, functions, links, systems, chains, channels, networks, etc.) are interpreted. And all of this is discussed in the concept of macro-, micro- and mega-logistics. There are several laws for building the logistic systems and chains stemming from the knowledge of logistic mission, which is based on the quality, time and costs. The automated management is of great importance in transport and in transport logistics.

The constant development of technologies and improving the level of relations between the Customer and the Service Provider, governed by the current trends in the global economy, have led to the expansion and re-engineering of business processes at the manufacturing enterprises; consequently, the requirements have increased in relation to the growing role of transport and logistics operations in the business activities of modern companies.

The history of the transport logistics development can be divided into several stages:

1PL (First Party Logistics) — Autonomous logistics – the freight owner performs all logistics operations by himself. Based on the tenders held, the contractors for the certain services are selected; the company reserves the control points of interaction for itself.

2PL (Second Party Logistics) — Traditional logistics — includes the traditional set of transportation and warehouse management services.

3PL (Third Party Logistics) means the provision of logistics services that go beyond the simple transportation of the goods. This includes, for example, warehousing, transshipment, additional services with the significant added value, as well as involving the subcontractors (contract logistics).

The emergence of 3PL term, describing the certain list of comprehensively provided logistics services, has caused the definition of 1PL and 2PL terms as less comprehensive logistics services.

Increase in the certain list of qualitative logistics services caused the emergence of 4PL term:

4PL (Fourth Party Logistics) — Integrated logistics — means the integration of all companies involved in the cargo supply chain. 4PL is a process for planning, managing and controlling of all logistic procedures (for example, information flows, raw material, materials, product and capital flows) by single 4PL-operator with the long-term strategic goals. 4PL is the integration of all companies involved in the supply chains.

4PL term was registered in 1996 by *Andersen Consulting (Accenture)* company. The fourth-party logistics service provider is a supply chain manager who integrates resources, capabilities and technology of its own organization with the resources, capabilities and technology of another logistics company and manages them in order to offer the most complete supply chain solutions to the customers [<http://www.toros21.ru/index.php/2009-10-10-13-10-45/149-10-05-12-3>].

Service integration of the entire supply chain of goods is the result of high-quality relationships between the Industrial enterprises and the Freight Services Provider in the field of transport logistics:

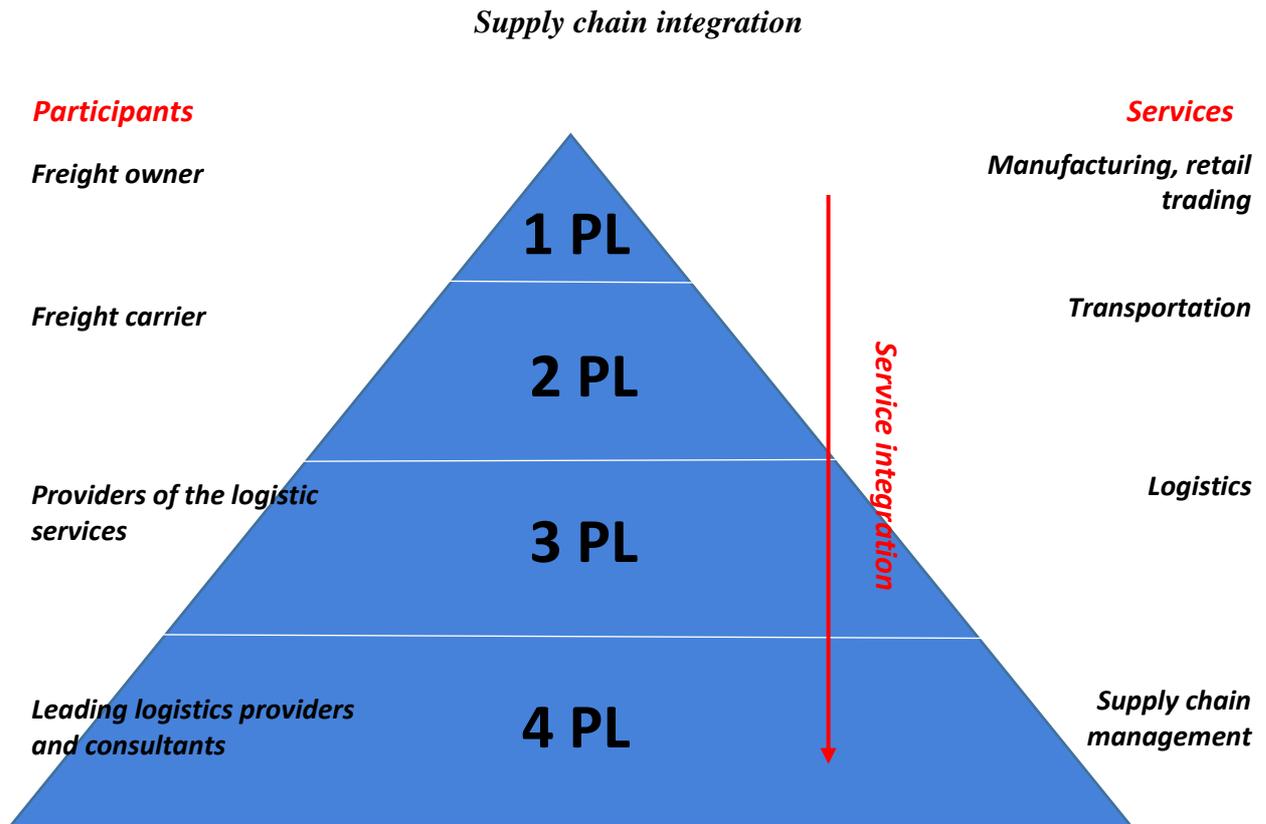


Figure 1. Logistics operator diagram.

Until recent time, the local customers of Kazakhstan have not been ready to delegate all logistics operations under the management of a single provider and preferred to work with the market of freight forwarders, customs brokers and owners of rolling stock. Currently, the situation is changing and some large holdings come to the conclusion that it is economically advantageous to work with 3PL and 4PL service providers which are the enterprises focusing on their own production process and considering that the transportation of goods is not their core business. Also, the main demand for 3PL and 4PL services in Kazakhstan is observed among the foreign companies operating in Kazakhstan.

In Kazakhstan, these services are provided by very few transport and logistics companies with the longstanding experience, which use a systematic approach to managing all the logistics business processes of the Industrial Enterprise and coordinating the key contractors in the supply chain, and ensure the effective cooperation and data exchange using the modern information systems and technologies.

According to the business profile of these Enterprises, the key performance indicator (KPI) and one of the major purposes for them is to optimize the transport component, reduce the expenses in respect

of the related work during the goods delivery: terminal services, cargo escorting services, delivery time, etc.

The industrial enterprises integrating the supply chains of their products together with the strategic partner like 3PL/4PL operators get the opportunity to optimize the entire business process, define the objectives related to the diversification and selection of the technology for organization of transport operations as well as place the emphasis on the information management and integration of the enterprise business processes based on IT solutions. The specified measures provide an opportunity for Industrial enterprises to expand the sales geography of their products, reduce the costs of transport logistics, thereby they will be able to reduce the final value of the goods.

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# **Public Private Partnership**

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## **Abstract**

Starting from the last third of the twentieth century, key changes are occurring in the strategies utilized by society to take care of the financial issues of residents and to fulfill their developing needs. Private business and the state are progressively captivating in collaboration looking for financially savvy approaches to tackle the issues of social improvement. One of the types of communication among government and business, which have substantiated themselves practically speaking, has been public-private partnership. In spite of the acknowledgment of this type of participation as one of the most significant organizations for expanding national and territorial intensity, its usage in Kazakhstan is moderate. The unsolved various hypothetical and methodological issues of the change to organizations between the state and business, the immature authoritative and administrative system at all levels, bureaucratic snags ruin the usage of public-private partnership in Kazakhstan. Appropriately, this makes it significant to direct research planned for finding successful types of actualizing public-private partnership ventures. What's more, the need to conquer the results of the worldwide monetary emergency, carry Kazakhstan's economy to the direction, completes the issue of finding a viable system of collaboration between the state and business, adjusting and understanding their inclinations.

## **Introduction**

Public private partnership is a mutually beneficial cooperation between the state and the private sector in industries traditionally related to the sphere of responsibility of the state. "

PPP is based on a balanced distribution of risks, benefits and costs, rights and obligations. The main goal of PPPs is to develop infrastructure in the public interest. This subject is significant and concerns businesspeople, however pretty much every Kazakhstani. On the off chance that we take PPP extends by industry, at that point in May 2019, half of all agreements identified with training (271 activities out of 548), each fifth agreement was actualized in the social insurance part (111 agreements). Public private partnership have numerous structures, however the quintessence is the equivalent: it ought to be useful to the two gatherings, both business and the state. In Kazakhstan, a genuine inclination has started when the spending accounts ventures for business without accepting proportionate returns. The state has sworn to repay business speculation costs for ventures in the measure of 90% of their absolute expense, while the all out expense of activities finished up on PPP footing is about 1.6 trillion. tenge,

which is proportional to 12.6% of the republican spending incomes for 2019. In remote practice, 1 tenge of private venture represents 3 tenge of private. In our nation, the proportion is 1.5 of private venture to 1 tenge private.

## **Main Body**

Under the states of the worldwide monetary emergency and the geopolitical circumstance that had created by the start of 2020, there was a sharp decrease in venture action in the districts of Kazakhstan. Numerous designs for the usage of significant foundation ventures are being diminished both on the activity of the organizations themselves and with respect to the state, since there is a constriction in the volume of government programs financed from spending plans of different levels. By the by, the issues of finishing progressing venture ventures, making purposes of development for the national economy, modernizing and reproducing existing framework offices don't lose their significance. Right now, specialists cause to notice the requirement for dynamic connection among business and the state, particularly to pull in extrabudgetary subsidizing of some open capacities at the local level. Practice has demonstrated that a noteworthy number of issues — refreshing social foundations, modernizing lodging and collective administrations, building up the street organize — can't be illuminated exclusively to the detriment of territorial and civil spending plans. Public private partnership (PPPs) end up being the most significant system for settling numerous financial assignments in the areas by pulling in private capital. Notwithstanding, this type of cooperation between the state business despite everything didn't get appropriate improvement in the Kazakhstan, including because of the vulnerability of the idea itself. In local and outside writing there are numerous meanings of PPP. I feature two essential ways to deal with the translation of this idea. As per the principal approach, PPP replaces privatization and is really deciphered as “semi-privatization”. As indicated by scientists, PPP is a middle of the road place among state and private property, speaking to a sort of administrative option in contrast to privatization. Clearly, there are territories that are the obligation of private business, where it can work autonomously, while there are likewise customary zones of the economy where creation grows just based on state possession.<sup>8</sup>These include: protection, social administrations, framework . From the perspective of private business, these segments, generally speaking, are not alluring, and regularly the state can't in conceding private capital. As per this methodology, the PPP system permits metered contribution of private business in taking care of socially critical issues. It considers the size of investment of privately owned businesses in the usage of property rights moved to them inside, ventures from the state: financing, plan, development, proprietorship and activity of

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<sup>8</sup> Gerrard M.B. Public-Private Partnerships // Finance & Development. 2001. Vol. 38. No 3. URL: <http://www.imf.org/external/pubs/ft/fandd/2001/09/gerrard.htm> (14.08.2015).

state undertakings. The inverse is the methodology as per which PPP is situated on the outskirts of relations among government and business, not being either an establishment of privatization or a foundation of nationalization, yet just a type of expanding the effectiveness of government execution of its functions. Nonetheless, this methodology deciphers the PPP instrument rather barely, concentrating on the socially significant commitment of organizations and not thinking about the institutional part of these relations. As we would like to think, in deciding the idea important to us, accentuate that PPP is an institutionally organized arrangement of relations between the state and business (state, metropolitan specialists and private people), inside which socially noteworthy ventures utilizing state property are actualized and which depend on conveyance powers, dangers, money related expenses and duty of the gatherings. This definition permits us to detail the key highlights of PPPs, the blend of which fills in as a basis for ordering the cooperation between the state and business as PPPs.

<sup>9</sup>The first sign is the legal registration of the interaction between the state and business by a special agreement, fixing specific details of cooperation in individual projects. The subsequent sign is the solidification of money related, authoritative, mechanical assets of the gatherings for the usage of a joint undertaking. The fundamental motivating force for government investment in PPPs is to pull in money related assets from the private division. The usage of market advances can lessen the weight on the spending limit and simultaneously grow the scope of administrations gave, increment their quality and accessibility. The third sign is the mandatory dispersion of money related dangers and expenses between the gatherings in the extents fixed in the significant understandings, contracts, contracts, and so on. Joining powers and means permits both to decrease the dangers of each accomplice and to reinforce the synergistic impact of this collaboration. The fourth sign is the prevalently long haul nature of the agreement relations, which is because of the need to address key and socially noteworthy assignments. In such an organization, the state figures the needs of the national economy. The fifth sign is the utilization of imaginative strategies in the administration of creation and the arrangement of open administrations. In light of the accessible present day pioneering experience, information, and new administration advancements, private business without the bureaucratic defers inborn in state structures improves business forms, the authoritative structure, and fundamentally builds the proficiency of dynamic. The featured highlights permit you to distinguish key PPP capacities:

- arrangement of private capital for taking care of socially noteworthy issues; □

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<sup>9</sup> Gerrard M.B. Public-Private Partnerships // Finance & Development. 2001. Vol. 38. No 3. URL: <http://www.imf.org/external/pubs/ft/fandd/2001/09/gerrard.htm> (14.08.2015).

- presentation of market standards in open organization property improvement of business forms dependent on creative techniques;
- cost decrease during development and activity of offices framework;
- improving the quality and extension of the sorts of administrations gave to the locales.

The practice of advanced countries suggests that PPP is an effective tool for solving many socially significant problems. This mechanism is developing in various forms: concessions, leases, production sharing agreements, state and other types of contracts. As of now, without a bound together enactment on PPP in Kazakhstan, the most widely recognized structure is a concession understanding.<sup>10</sup> As indicated by the concession understanding, one gathering (the concessionaire) attempts at its own cost to make and/or recreate the property characterized by this understanding (object of the concession understanding), the responsibility for will have a place with the other party (concessionaire), to do exercises utilizing/working the object of the understanding, what's more, the conessor, thus, embraces to give the concessionaire to the period built up by this concurrence with the rights to claim and utilize the office to do the predefined movement. As it were, inside the structure of the understanding, the state, as the full proprietor of the property, approves its private accomplice to satisfy commitments for a specific timeframe, and the private accomplice, thus, gets state ensures for the arrangement of state property for use, makes an installment stipulated by the gatherings, limits dangers and adds to the advancement of the locale . The restrictiveness of the rights allowed under the concession understanding can't status of the state, however its privileges as an open position. In light of this definition, we feature the key indications of a concession as a device to pull in interest in the social circle:

- The legally binding premise of organization with the long haul nature of the cooperation revered in government law;
- provincial or civil responsibility for concession object;
- the chance of installments by the concessionaire to the state for the ownership and utilization of the item (the purported concession expense) or installments made by the conessor for the privately owned business (for effective usage of the undertaking);
- monetary support of a private speculator in capital consumptions while making a framework office;
- move to the private accomplice of just proprietorship and use rights, while holding the possession right of the open accomplice;

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<sup>10</sup> Gerrard M.B. Public-Private Partnerships // Finance & Development. 2001. Vol. 38. No 3. URL: <http://www.imf.org/external/pubs/ft/fandd/2001/09/gerrard.htm> (14.08.2015).

- arrangement of state certifications to the concessionaire.

It ought to be noticed that PPP instruments are getting increasingly various, there is an inclination to grow the extent of use of concession understandings. Since 2005, this structure has become broad in transport foundation ventures, yet additionally in others identified with the improvement of lodging and common administrations, digital TV, communication, training, social insurance, and so forth. The biggest number of PPP extends in the social circle are actualized in medicinal services. This industry is portrayed by a significant level of deterioration. Fixed resources, significant expenses in the development of foundation and substantial holes in specific areas. Right now, is viewed as the most encouraging for finishing up understandings among business and the state, since it has collected rich involvement with law authorization practice.

## **Conclusion**

To increase the effectiveness of PPP in the social sphere, it is necessary to provide for the solution of the following tasks. Firstly, there is a need to improve the legislative framework. The absence of a basic federal law on PPP complicates the adoption of regional laws, as a result of which the lack of a regulatory framework significantly slows down the accelerated development of this mechanism. Also, it is important to institutionalize serious methods and documentation so the two sides of the connection can lead exchange on one clear language. Simultaneously, the state will have the chance to turn into an undeniable qualified client of PPP ventures, and the business, thus, will get straightforward conditions while making offices. Thirdly, in creating PPPs, one ought to depend on vital arranging. As training appears, the normal undertaking usage period is 5-15 years. During this period, there might be a change in political elites and, subsequently, an adjustment in the vector of financial improvement. Since the PPP instrument is a significant component of venture strategy, the advancement of a long haul approach is required with the goal that the duties made toward the start of the task are additionally upheld on the equivalent institutional conditions. That is the reason the state as involved with the understanding must face certain challenges. As a matter of first importance, this worries the dangers of end of the task, particularly comparable to social foundation offices. Additionally high are the dangers related with the chance of changing the conditions for renegotiating the undertaking, free of the private financial specialist. Fourth, different types of PPP should be created. At present, the residential act of PPPs really boils down to a solitary structure - concessions, albeit outside experience has likewise indicated the adequacy of different structures: leases, creation sharing understandings, state and different kinds of agreements, specifically life cycle contracts. The benefits of the last sort of agreements are self-evident:

the structure, development and operational dangers are borne by the private party, and the state, going about as the client, accept just control of key indicators<sup>26</sup>. Likewise, the installment of spending assets to a private individual is given after the authorizing of the office and is partitioned into stages, which makes it conceivable to design these expenses ahead of time. This type of PPP is likewise valuable for business: because of long haul state financing, the organization is destined to have the option to guarantee the arrival on and degree of profitability by acquainting the most cutting edge innovations with lessen its own expenses. Right now, is imperative to underscore that the danger of interest for the executed framework offices lies with the state. Along these lines, the advancement of the PPP system is of specific significance for the economy of Kazakhstan, when the state spending plan is extremely constrained and the market for foundation ventures is very enormous. The arrangement of the above issues, as we would like to think, is a condition for powerful cooperation among business and the state at the territorial level.

# **De-Criminalization of tax offenses in Kazakhstan: A comparative study with special reference to the practical approach.**

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## **Abstract**

According to the current Kazakhstan tax and criminal legislation, any amount of assessed and unpaid taxes / other obligatory payments that exceed MCI 50,000 (approximately USD 350,000) leads to criminal investigation with further potential restriction of freedom of movement for up to 3 years or imprisonment for up to 3 years, with deprivation of the right to hold certain positions or engage in certain activities for the same period. This is in addition to the material responsibility that is usually imposed on the respective individuals (e.g. general directors, chief accountants or tax managers) or group of individuals. In this regard, there are some initiatives in Kazakhstan arguing for the de-criminalization of tax offenses, in response to which my thesis would like to consider the justifiable grounds for. My thesis will focus on the substance of the tax crime itself, based on the comparative approach with other countries developed in fiscal regimes. The study is expected to show that in practice de-criminalization of internal tax departments of corporations with respective amendments to the Kazakhstan Tax and Criminal Codes should take place, to allow business structures to operate in the “healthy” economic environment.

## **Introduction**

Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except **death and taxes**.

— *Benjamin Franklin, in a letter to Jean-Baptiste Le Roy, 1789*<sup>11</sup>

### **1. Orientation of the proposed study**

The proposed study will be over Article 245 of the Criminal Code of Kazakhstan<sup>12</sup>, which envisages evasion from payment of taxes that were assessed as committing by one of the following ways: (i) non-filing of an obligatory tax return; (ii) reflection in the return of intentionally distorted income or expenses date; (iii) concealment of taxable objects that may lead to restriction of movement freedom

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<sup>11</sup> Benjamin Franklin, in a letter to Jean-Baptiste Le Roy, 1789

<[https://en.wikipedia.org/wiki/Death\\_and\\_taxes\\_\(idiom\)](https://en.wikipedia.org/wiki/Death_and_taxes_(idiom))> accessed 20 March 2020

<sup>12</sup> The Criminal Code of the Republic of Kazakhstan dated July 3, 2014 No. 226-V <

[https://online.zakon.kz/document/?doc\\_id=31575252#pos=276;-50](https://online.zakon.kz/document/?doc_id=31575252#pos=276;-50) > accessed 19 March 2020

for up to 3 years or imprisonment for up to 3 years (if the amount of tax assessment is above 50 000 MCI (approximately USD 350 000)) or imprisonment for up to 8 years with deprivation of the right to hold certain positions or be engaged in certain activities for up to 3 years (if the amount of tax assessment is above 75 000 MCI (approximately USD 520 000)).

In case the tax assessment to the taxpayer is made by the tax authorities in the amount exceeding the indicated above thresholds, this factual information is automatically transferred to the Economic Investigation Department (EID), which immediately registers this case in the Unified Register of Pre-trial Investigations that leads to the initiation of criminal proceedings. During such implementation of criminal procedural measures, the suspect to be determined and the criminal case is transferred to the court. At this case an exemption from the criminal liability is provided only if the person (e.g. a chief accountant, general director, tax manager or any other person responsible for signing or filing of tax returns, while exemption is not applicable for the group of people) responsible for the commitment of the criminal offense pays the outstanding taxes and respective fines and penalties to the budget voluntarily. While in practice generally the debt settlement itself may not be enough to stop the criminal proceedings, since the person should admit and pay out, which releases him or her from criminal liability, but leaves with a criminal record.

## **2. Statement of the Problem**

Based on the above, it is evident that not only concealment, but even understatement of taxes is enough for initiation of the criminal case. It provides that Kazakhstan legislation does not consider a concept of an honest mistake in tax accounting. Moreover, it is important to determine, whether such person was intended to make tax offense, while generally individuals are initially presumed to be guilty.

This study aims to analyze whether tax offenses (especially made by honest mistakes) consider a criminal element by nature.

## **3. Objectives of the study**

In view of the above my objectives are to examine the nature of tax offenses for presence of the criminal element, as well as the relevant responsibility statistical data. The main objective would be to provide any grounds for de-criminalization of tax offenses that may potentially lead to economic growth of the country, considering that the enterprises will be able to operate in the healthy environment.

## **4. Significance of the study**

The topic of criminal liability is important, considering the current pressure from the state revenue bodies and law enforcement authorities on the taxpayers, including the good faith taxpayers. Therefore,

the scope of this work will discuss the initial purpose of making tax compliance a criminal issue, considering that as of now the necessity on criminalization of tax liability is not seen from my perspective.

## **5. Literature review**

The literature selection was not an easy task for this exercise, since there are not much relevant academic sources available on this topic<sup>13</sup>. However, there were some academic articles from the official databases covering a wide date range. Hence, some of the articles were dated back to more than 10-20 years period, but were still applicable, considering that the main purpose of this literature review is to understand the original reason for criminalization of tax offenses. The pattern of the review included any articles discussing the link between both concepts on tax issue and criminal liability.

### **5.1 Historical background**

As Hamdani and Klement state, the notion of in-company criminal liability has been under dispute for many years, since the academics have argued on inefficiency and inconsistency of criminal liability enforcement on legal entities with personal liability and moral persuasion<sup>14</sup>. While Raskolnikov talks on the traditional debate on the much presence of tax avoidance<sup>15</sup>. Bergman discusses the argues related to a white collar crime defined in 1939 that has been historically challenged by legal scholars, due to absence of the crime as such (determined as a civil infringement resulted with various excessive financial punishments) because of a series of infringements by high positioned officials of the largest US legal entities<sup>16</sup>.

### **5.2 Methodologies**

Hamdani and Klement as part of their analysis of corporate crime and deterrence provide the background information on the notions of in-company criminal liability and its repercussions<sup>17</sup>. The most significant evidence from the companies questionnaires resulted with cases on success of impositions in forcing the legal companies to support in penalties against own workers. Raskolnikov's analysis and suggestion are also based in the economic approach to deterrence, suggesting that companies before involvement in tax avoidance rely on expected rather than nominal penalties by

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<sup>13</sup> I looked for articles and monographs in the google scholar and other relevant academic databases from the perspective of Kazakhstan and overall CIS tax legislation.

<sup>14</sup> Assaf Hamdani and Alon Klement, 'Corporate Crime And Deterrence' (*jstor.org*, 2008) <<https://www.jstor.org/stable/40379686>> accessed 1 December 2019.

<sup>15</sup> Alex Raskolnikov, 'Crime And Punishment In Taxation: Deceit, Deterrence, And The Self-Adjusting Penalty' (*jstor.org*, 2006) <<https://www.jstor.org/stable/4099446>> accessed 6 November 2019.

<sup>16</sup> Marcelo Bergman, 'Criminal Law And Tax Compliance In Argentina: Testing The Limits Of Deterrence' (*Doi.org*, 1998) <<https://doi.org/10.1006/ijsl.1998.0058>> accessed 6 December 2019.

<sup>17</sup> Assaf Hamdani and Alon Klement, 'Corporate Crime And Deterrence' (*jstor.org*, 2008) <<https://www.jstor.org/stable/40379686>> accessed 1 December 2019.

excluding them, which leads to lower probability of their enforcement<sup>18</sup>. Bergman on the case of Argentina observed criminal tax reform achievements for important progress in compliance, which was not successful due to inefficient imposition measures<sup>19</sup>. Doran studies the instrumental link between tax charges and tax compliance, assuming that the goal of tax charges is to promote tax compliance via review of deterrence model and norms model<sup>20</sup>.

### ***5.3 Previous studies***

As indicated in the work of Hamdani and Klement, the findings against in-company criminal liability often refer to the distressed influence of criminal persuasion on the corporate entities, their workers and other guiltless third parties<sup>21</sup>. While these legit implications were not able to confirm the deterrence effect of criminal liability. However, some analysts assume that such severe charges should be an motivation for avoiding making not right actions. Raskolnikov states that statutory models of tax non-compliance disregarded the overview of the structural function of nominal penalties for economic deterrence notion<sup>22</sup>. Bergman points out that in the latest dozens of years the tax-law infringement imposition by many countries has strengthened<sup>23</sup>. However, the reviews show that criminalization of tax violation will not for sure affect compliance . According to Doran, the legal and economic studies historically suggest that the link between tax charges and tax compliance is instrumental to influence compliance<sup>24</sup>.

### ***5.4 Viewpoints and principal questions raised***

Hamdani and Klement show that the implications out of enforcement of criminal liability on corporations might challenge the deterrence effect, while monetary charges could involve non-compliance more effectively<sup>25</sup>. They also raise a serious concern with respect to disastrous effect of the applied penalty measures, providing examples of professional firms and reduced monitoring effect on

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<sup>18</sup> A Raskolnikov, 'Crime And Punishment In Taxation: Deceit, Deterrence, And The Self-Adjusting Penalty' (*jstor.org*, 2006) <<https://www.jstor.org/stable/4099446>> accessed 6 November 2019.

<sup>19</sup> Marcelo Bergman, 'Criminal Law And Tax Compliance In Argentina: Testing The Limits Of Deterrence' (*Doi.org*, 1998) <<https://doi.org/10.1006/ijsl.1998.0058>> accessed 6 December 2019.

<sup>20</sup> Michael Doran, 'Tax Penalties And Tax Compliance' (*Ssrn.com*, 2019) <<https://ssrn.com/abstract=1314401>> accessed 17 December 2019.

<sup>21</sup> Assaf Hamdani and Alon Klement, 'Corporate Crime And Deterrence' (*jstor.org*, 2008) <<https://www.jstor.org/stable/40379686>> accessed 1 December 2019.

<sup>22</sup> Alex Raskolnikov, 'Crime And Punishment In Taxation: Deceit, Deterrence, And The Self-Adjusting Penalty' (*jstor.org*, 2006) <<https://www.jstor.org/stable/4099446>> accessed 6 November 2019.

<sup>23</sup> Marcelo Bergman, 'Criminal Law And Tax Compliance In Argentina: Testing The Limits Of Deterrence' (*Doi.org*, 1998) <<https://doi.org/10.1006/ijsl.1998.0058>> accessed 6 December 2019.

<sup>24</sup> Michael Doran, 'Tax Penalties And Tax Compliance' (*Ssrn.com*, 2019) <<https://ssrn.com/abstract=1314401>> accessed 17 December 2019.

<sup>25</sup> Assaf Hamdani and Alon Klement, 'Corporate Crime And Deterrence' (*jstor.org*, 2008) <<https://www.jstor.org/stable/40379686>> accessed 1 December 2019.

compliance. Raskolnikov identifies a weak side of the tax imposition structure and concentrates on a charge of a new type<sup>26</sup>. According to Bergman, despite the social and legal resistance on criminalization and enforcement of tax violations, countries are focused on charges of selective cases in the form of deterrence tool<sup>27</sup>. Doran's article yields a main approach stating that in addition to instrumental functions of increasing tax compliance, tax charges determine tax compliance, which should be a beginning point for penalty suggestions<sup>28</sup>.

Even if the long-run objective of the suggested study proposals is common, the authors rely on different grounds for their research. Hamdani and Klement fundamentally do not support the penalization, which challenges deterrence in principal. Raskolnikov refers to weakness of the penalization regime, which requires drastic reforms. Bergman considers such regime as not acceptable, while allows for its occasional application. Doran points on the instrumental function of penalties that might be a base for the compliance.

### **5.5 General conclusions**

Hamdani and Klement provide several tips relating to the in-company liability and penalties, showing that severe charges may challenge deterrence in public structures<sup>29</sup>. Raskolnikov concludes that the current imposition approach is unable to support the deterrence effect to the weak overview of nominal penalties role<sup>30</sup>. Bergman states that there is no evidence that legal reforms focused on criminal tax examinations strengthen compliance<sup>31</sup>. Doran concludes that the link between tax charges and compliance not only instrumental, but conceptual, and both these roles of tax charges require an improvement<sup>32</sup>.

To sum up, the most of the reviewed articles do not promote the deterrence effect of the tax charges, except for Doran's work, which suggests on the instrumental and conceptual link between tax charges and tax compliance. However, all the authors agree that the system of enforcement of charges should

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<sup>26</sup> Alex Raskolnikov, 'Crime And Punishment In Taxation: Deceit, Deterrence, And The Self-Adjusting Penalty' (*jstor.org*, 2006) <<https://www.jstor.org/stable/4099446>> accessed 6 November 2019.

<sup>27</sup> Marcelo Bergman, 'Criminal Law And Tax Compliance In Argentina: Testing The Limits Of Deterrence' (*Doi.org*, 1998) <<https://doi.org/10.1006/ijsl.1998.0058>> accessed 6 December 2019.

<sup>28</sup> Michael Doran, 'Tax Penalties And Tax Compliance' (*Ssrn.com*, 2019) <<https://ssrn.com/abstract=1314401>> accessed 17 December 2019.

<sup>29</sup> Assaf Hamdani and Alon Klement, 'Corporate Crime And Deterrence' (*jstor.org*, 2008) <<https://www.jstor.org/stable/40379686>> accessed 1 December 2019.

<sup>30</sup> Alex Raskolnikov, 'Crime And Punishment In Taxation: Deceit, Deterrence, And The Self-Adjusting Penalty' (*jstor.org*, 2006) <<https://www.jstor.org/stable/4099446>> accessed 6 November 2019.

<sup>31</sup> Marcelo Bergman, 'Criminal Law And Tax Compliance In Argentina: Testing The Limits Of Deterrence' (*Doi.org*, 1998) <<https://doi.org/10.1006/ijsl.1998.0058>> accessed 6 December 2019.

<sup>32</sup> Michael Doran, 'Tax Penalties And Tax Compliance' (*Ssrn.com*, 2019) <<https://ssrn.com/abstract=1314401>> accessed 17 December 2019.

be updated and improved. The further research should be made to assess the effective ways for enforcement measures. Whereas, the overall perspective on the topic is that the need for criminalization of tax violation is not supported and proven.

## **Analysis**

### **1. Substance of the tax crime and concept of the relevant responsibility, including statistical data**

First of all, the concept of crime itself should be discussed e.g. in the context of criminology. According to Michalowski, from etymological point of view crime has 2 meanings:

- 1) An action or omission that relates to an offense to be prosecuted by the state and punishable by the law;
- 2) An action or activity, which is not illegal and considered to be wrong, shameful<sup>33</sup>.

There is also an often quoted definition of crime by Tappan, who defined crime as “an intentional act in violation of the criminal law committed without defense or excuse, and penalized by the state”<sup>34</sup>

Next the concept of ‘tax crime’ should be considered. However, there is no particular definition of the tax crime. Therefore, I have looked at the available explanations provided by the different legal sources and state authorities of the most representative from taxation point of view countries.

### **2. Comparative approach with other countries**

To begin with, in Kazakhstan there is no concept of ‘tax crime’, while it is represented by evasion. To be concise it is envisaged by mentioned earlier Article 246 of the Criminal code:

*“Evasion of tax and (or) other obligatory payments to the budget from organizations by not submitting a declaration when the filing of the declaration is mandatory, or by introducing into the declaration deliberately distorted data on income and (or) expenses, by hiding other objects of taxation and (or) other obligatory payments, if this act entailed non-payment of tax and (or) other obligatory payments in a large amount...[ ]”<sup>35</sup>.*

While for the country with more or less similar background, such as Russia, there is a definition for the tax crime that I was able to find: “crimes related to the economic sphere of activity. Crimes of this

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<sup>33</sup> Raymond Michalowski, ‘What is Crime? Why is Criminology?’ (Northern Arizona University) <ASC\_2013\_Presidential-Paper\_Michalowski,%20Raymond.pdf> accessed 22 March 2020.

<sup>34</sup> ‘Introduction and Overview of Crime and Criminology’ (SAGE Publications, Inc., 2019) <90400\_Section\_One\_Introduction\_and\_Overview\_of\_Crime\_and\_Criminology.pdf> accessed 22 March 2020.

<sup>35</sup> The Criminal Code of the Republic of Kazakhstan dated July 3, 2014 No. 226-V <[https://online.zakon.kz/document/?doc\\_id=31575252#pos=276;-50](https://online.zakon.kz/document/?doc_id=31575252#pos=276;-50)> accessed 22 March 2020.

type infringe on public relations in the sphere of the state budget. In response, the state has established the administrative and criminal responsibility for tax offenses”<sup>36</sup>.

The United States Tax Crimes Handbook provides the following on the attempt to evade or defeat tax: “Any person who willfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof, shall be fined\* not more than \$100,000 (\$500,000 in the case of a corporation), or imprisoned not more than 5 years, or both, together with the costs of prosecution.

*\* As to offenses committed after December 31, 1984, the Criminal Fine Enforcement Act of 1984 (P.L. 92-596) enacted as 18 U.S.C. § 3571, increased the maximum permissible fines for felony offenses set forth in section 7201. The maximum permissible fine is \$250,000 for individuals and \$500,000 for corporations”<sup>37</sup>.*

The Australian Taxation Office explains tax crime as abusing the tax system for the financial benefit, including the following elements:

- Hiding cash wages,
- Avoiding tax,
- Using complex offshore secret arrangements,
- Falsely claiming refunds,

that lead to serious consequences, including penalties, criminal convictions, fines and prison sentences<sup>38</sup>.

Based on the above definitions, the common elements of tax crime include the issue of tax evasion. While not all of them conceptualize the fact of intentional tax offense. It may be related to the nature of the crime itself that considers any action leading to the offense as crime. However, one of the commonly cited definitions of the crime also mentions intention or will. Therefore, based on the comparative approach, I would highlight that for Kazakhstan taxation system there is an option for considering the unintended mistake that caused the tax offense and criminal liability.

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<sup>36</sup> O. Filipets ‘Tax Crimes: Issues of improving criminal law’ (Ural Institute of Economics, Administration and Law herald) <<https://cyberleninka.ru/article/n/nalogovye-prestupleniya-voprosy-sovershenstvovaniya-ugolovno-pravovyh-norm>> accessed 22 March 2020.

<sup>37</sup> ‘Tax Crimes Handbook’ (Office of Chief Counsel Criminal Tax Division, 2009) <[https://www.irs.gov/pub/irs-utl/tax\\_crimes\\_handbook.pdf](https://www.irs.gov/pub/irs-utl/tax_crimes_handbook.pdf)> accessed 22 March 2020.

<sup>38</sup> ‘Tax crime explained’ (Australian Taxation Office) <<https://www.ato.gov.au/general/the-fight-against-tax-crime/tax-crime-explained/>> accessed 22 March 2020.

In conclusion, considering that Kazakhstan legislation allows for consideration of the criminal element in the tax offense concept, there are certain measure to be taken in order to determine the intention for the tax offense. Hence, before application of the enforcement measures for criminal liability purposes, there should be a space for proper investigation of each case individually. Moreover, the review of the studies on deterrence effect of the tax offense criminalization does not prove its efficiency.

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# **The Application of the Concept of Permanent Establishment in Electronic Commerce in Kazakhstan**

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This paper discusses the relationship between the concept of permanent establishment and electronic commerce and how it is regulated in Kazakhstan.

In particular it aims to see how Kazakhstan overcomes, if at all, the new challenges the current era of fast development of information technology poses to traditional concepts of international law such as the principle of permanent establishment. This concept, which served as a cornerstone element to the resolution of the double taxation problem in the epoch when international trade was predominantly carried out on paper, is now blurred. These new challenges thus produce ambiguity and uncertainty in the field of law on both domestic and international levels. How Kazakhstan deals with this problem this work aims to discover.

The paper uses qualitative methodology and takes a doctrinal approach. The former uses interviews as the main research instrument studying opinions of three experts in the field. The latter, also known as “black-letter” method, focuses on exploring traditional legal sources such as statutes, rules, legal texts, etc.

Since the protection and promotion of national business is essential to the growth of the national economy and thus the well being of citizens, and given the fact that the modern era becomes overwhelmingly digital, these issues are of utmost importance to the legislature. As such, close scrutiny of the problem to the resolution of which the present paper is supposed and hopefully will add value is highly recommended.

## **1. Introduction**

### **1.1 Research outline**

This section discusses the outline of the research. To make it easy to read and comprehend the thesis is divided into four chapters lined up along the steps the author undertook to investigate the problem.

Chapter one introduces the problem providing its background and formulating the claim. It also sets the objectives of the research and explains why the research is important. It then describes the

methodology and provides literature review, i.e. an overview of existing findings on the topic to form a general understanding of the field.

Chapter two elaborates on the main concepts used in the paper in more detail. As such it concentrates on the specifics and particularities of permanent establishment and electronic commerce. It then discusses the possible application of PE to e-commerce and investigates what OECD has to say on the problem.

Chapter three embodies the main findings of the research. It explores how Kazakhstan legislature applies the concept of PE to electronic commercial transactions. It thus focuses on the law, statutes and rules present in Kazakhstani tax legislation that regulate such transactions. The aim of the chapter is to discover gaps or problems in the legislation that make it difficult for the tax authorities to clearly differentiate between source and international incomes, i.e. those incomes that belong to the country from the ones that are to be taxed abroad. The chapter ends with the opinions of the experts regarding the problem.

The last chapter summarizes research findings and makes recommendations. In particular it advises what changes in the legislation the government could consider to deal with the problem.

## 1.2 Background of the problem

Electronic commerce is one of the fastest growing categories of the global trade. It was born in the beginning of 1970's in United States when students of Stanford University and Massachusetts Institute of Technology used the Advanced Research Projects Agency Network, a first computer network, to organize for a sale and purchase of cannabis<sup>39</sup>. Already in 1999 worldwide e-commerce reached \$150 billions<sup>40</sup> mark and only 20 years later, in 2017, its retail component beat the figure of \$2.304 trillion<sup>41</sup>. In 2020 its rate of growth is expected to be around 4.1%<sup>42</sup>, while that of the worldwide trade in general,

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<sup>39</sup> Power, Michael 'Mike' (19 April 2013). "[Online highs are old as the net: the first e-commerce was a drugs deal](#)". *The Guardian*. London. Retrieved 15.03.2020.

<sup>40</sup> Teriz, N (2011). "The impact of e-commerce on international trade and employment". *Procedia - Social and Behavioral Sciences*. 24: 745–753.

<sup>41</sup> "[Worldwide Retail and Ecommerce Sales: eMarketer's Updated Forecast and New Mcommerce Estimates for 2016–2021 - eMarketer](#)". *www.emarketer.com*. Retrieved 15 November 2018.

<sup>42</sup> eMarketer indicates that during five years preceding 2019 worldwide e-commerce grew between 5.7% and 7.5% annually. In 2017 its share of the total retail commerce grew 28% and in 2018 – 22.9%. Although the resource predicts a decline in its pace of growth, the average rate is expected to be 4.5% annually up to 2023, which is a fairly decent growth by all standards. <https://www.emarketer.com/content/global-ecommerce-2019> accessed on 15.03.2020.

as projected by the World Bank, will be 2.5%<sup>43</sup>. In the region of Central Asia the trade in general is expected to grow more as inferring from its robust 4.5% rate of growth in 2019<sup>44</sup>. During the meeting of the Government held in the middle of May of 2019 and chaired by the Prime Minister of the Republic of Kazakhstan Askar Mamin<sup>45</sup> it was reported that in 2018 the e-commerce market in Kazakhstan grew one and a half times in comparison to 2017 and amounted to 269 billions of tenge. The share of electronic commerce in the overall trade comprised 2.9%. The amount of active buyers doubled and constituted 2.3 millions of people, which is roughly 13% of the total population. As of beginning of 2019 e-commerce in Kazakhstan grew 23.2% and totaled 287 billions of tenge<sup>46</sup>. Its share in the overall trade comprised 2.9%. The level of Internet penetration in the country in 2017 constituted 76.4%, which put Kazakhstan in the second place after Great Britain (94.8%) and leaving behind such countries as United States (76.2%), Poland (76%) and Russia (76%). By 2022 it is estimated that smartphones will be used by 82% of Kazakhstani mobile phone users. All of this indicates what a significant potential for growth in the sphere of electronic commerce Kazakhstan has. This brief overview of the history thus shows that for less than a century electronic commerce has undergone a strikingly rapid and swift development. Needless to say that such a development has changed the habitual way of living of many of us. Private individuals around the world nowadays can work, study, socialize and buy almost any good or service online while the B2B sector is able to carry out its large and complex transactions over the Internet and this is not to mention almost limitless opportunities for communication.

From legal and tax perspectives, however, e-commerce has placed new challenges specifically to international trade since it has blurred traditional trade concepts on which the edifice of international trade is built. Such is the concept of permanent establishment (PE), which is a focus of attention of this paper and which can be found in legislation of almost every country involved in international trade. Initially the concept of permanent establishment was created to resolve the problem of double taxation<sup>47</sup>, which became all the more pressing with the rise of international trade. Known also as

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<sup>43</sup> The World Bank, 'A World Bank Flagship Report. Global Economic Prospects: Slow Growth, Policy Changes' (January 2020). Downloaded on 15.03.2020 at <https://www.worldbank.org/en/publication/global-economic-prospects#firstLink11666>.

<sup>44</sup> The World Bank (n 2).

<sup>45</sup> Gazette "Liter", 'What Is the Future of Electronic Commerce in Kazakhstan?' (14 May 2019) <https://liter.kz/1452-kakovo-budushchee-elektronnoy-torgovli-v-kazahstane/> accessed on 15.03.2020.

<sup>46</sup> IT-portal PROFIT, 'E-commerce in Kazakhstan: The Regulator and Business Discussed The Development Prospects of The Industry (24 May 2019) <https://profit.kz/news/53325/Elektronnaya-kommerciya-v-Kazahstane-regulyator-i-biznes-obsudili-perspektivi-razvitiya-otrasli/> accessed on 15.03.2020 basing on Digital Kazakhstan Association, Round Table: The Future of E-commerce in Kazakhstan – Do The Aims of The Regulator and Business coincide? (20 May 2019) <https://profit.kz/news/53325/Elektronnaya-kommerciya-v-Kazahstane-regulyator-i-biznes-obsudili-perspektivi-razvitiya-otrasli/>.

<sup>47</sup> Roy Rohatgi, Basic International Taxation, Volume I: Principles (2<sup>nd</sup> ed., Richmond Law & Tax Ltd. 2005) 2

juridical double taxation<sup>48</sup> this situation happens when both domestic states and the so-called “source” states preserve the right to tax the same income of the same subjects for the same period. In other words, double taxation arises when domestic states tax all international income of its legal persons and “source” states tax the same income due to the fact that it has arisen from within its territory. Predictably such situation exposed businesses to double pressure and therefore threatened the development of international trade. Therefore in 1963 the Organization for Economic Cooperation and Development published its first Draft Model Tax Convention<sup>49</sup>, which among other issues aimed to deal with this double taxation problem on global level. With the growth of electronic commerce, however, it became clear that the concept of PE was no longer able to fully perform its role, i.e. to split the profit between domestic and source states in a clear and comprehensible manner and so modifications to it were needed. Were such modifications implemented as well by Kazakhstan, this paper aims to discover.

### 1.3 Statement of the problem

As indicated by Article 5 of OECD Model Tax Convention, Permanent establishment is a fixed place of business that gives particular jurisdiction a right to tax entrepreneurs and companies. In other words, if the characteristics of the presence of these legal persons in the jurisdiction meet the criteria of PE then the authorities can levy tax on them. But what are exactly these criteria? To form a PE legal person’s presence on the territory of a state, which applies the concept in its tax legislation, must equal to “a fixed place of business through which the business of a company is wholly or partially carried on”. The term specifically includes place of management, branch, office, factory, workshop, oil or gas well, quarry, mine or any other place of natural resources extraction<sup>50</sup>. If a building site, construction or installation project continues for more than twelve months, it also constitutes a PE<sup>51</sup>. The article also names activities that are excluded from the term<sup>52</sup>. Apart from fixed place a PE is also formed whenever an enterprise carries on its business through a dependent agent<sup>53</sup> and, vice versa, there will be no PE if the business is conducted by an independent agent even though on behalf on the enterprise<sup>54</sup>. As such it can be seen the concept of permanent establishment is based on the principle of territoriality<sup>55</sup>, i.e. that a state, within its borders, has exclusive power to decide whom to tax and whom to exempt.

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<sup>48</sup> Rohatgi (n 9).

<sup>49</sup> OECD Official Website, <https://www.oecd.org/tax/treaties/tax-treaties-2017-update-to-oecd-model-tax-convention-released.htm> retrieved on 16.03.20.

<sup>50</sup> OECD Model Tax Convention, Article 5.2

<sup>51</sup> OECD Model Tax Convention, Article 5.3

<sup>52</sup> OECD Model Tax Convention, Article 5.4

<sup>53</sup> OECD Model Tax Convention, Article 5.5

<sup>54</sup> OECD Model Tax Convention, Article 5.6

<sup>55</sup> Trevor C. Hartley, *International Commercial Litigation* (CUP 2009) 383

Electronic commerce, as an activity of buying and selling goods and services online, does not have this attachment to territory of a particular state. It thus can create a situation where considerable income still comes from within the source state but its government cannot tax such income since according to a rather fixed and clearly defined criterion of permanent establishment the latter is not formed on its territory. As such electronic commerce makes the concept of PE outdated for the needs of today. As global online trade steadily grows tax authorities of the countries involved in international commerce must take account of these new challenges and correspondingly adapt its tax legislations in order, on the one hand, not to lose incomes that rightfully belong to them and, on the other, not to overtax international incomes.

As such it is the main objective of this thesis to discover what measures Kazakhstan's tax authorities take to cope with the issue, i.e. what rules and regulations there currently are in Kazakhstani legislation that deal with taxation of incomes coming from cross-border Internet transactions and how successfully can they demarcate the two types of incomes. Such a clear demarcation is important since it protects "source" incomes and thereby national economy and promotes international trade by not overtaxing international incomes.

#### **1.4 Objectives of the research**

The paper aims to answer the research question of the thesis, i.e. given the new challenges the current era of fast development of information technology poses to traditional concepts of international law such as the concept of permanent establishment, how Kazakhstan overcomes, if at all, these new difficulties? The work therefore is specifically interested in the exact measures the government, and its legislative branch in particular, takes in order to strike balance between the protection of national economy and the promotion of international trade. It thus seeks to explore all relevant statutes, rules and regulations on electronic commerce and permanent establishment so as to draw a complete picture of the situation. It also refers to case law to see how, apart from theory, the issue is resolved in practice.

#### **1.5 Significance of the research**

The protection and promotion of national business is a goal of an utmost significance to any country since this goal is essential to the growth of national economy and therefore to the well being of its citizens and overall development of society. Given the fact that modern era becomes overwhelmingly digital the government in order to effectively and efficiently manage its economy must readily grasp

any global trends that change the traditional patterns of economic relationships, such as the shifting concept of permanent establishment closely scrutinized by this paper. Therefore the legislature as being an integral part of the government and facing these issues at the forefront must be able to promptly embrace and “digest” them so as to produce such rules and regulations that are capable of dealing with these new challenges in the manner most beneficent to national economy in general and to each and every player in it, i.e. the society at large, entrepreneurs, small and medium-sized business and corporations. Thus this research as concentrating on the shifting understanding of one the most important concepts in international business from the taxation perspective, i.e. the notion of permanent establishment, is supposed and hopefully will add value.

## 1.6 Methodology

This section describes the methodology used to gather and analyze data needed to answer the research question. Nominally is consists of three components: research design, instruments by which data is collected and how this data is then analyzed.

Research design<sup>56</sup>, the first component of methodology, refers to the overall strategy to approach the research problem and is of qualitative nature<sup>57</sup>, i.e. it seeks to address the issue by collecting and analyzing non-numerical data.

Research processes that implemented for this thesis are desk research and interviews. While one can understand how the interviews are conducted the desk research tool probably needs some clarification. Desk research also known as secondary research<sup>58</sup> is a process of reviewing existing research findings to gain a general understanding of the topic.

Regarding the sources from which data is collected this work uses both primary and secondary sources. The former relates to “immediate, first-hand accounts of the topic”<sup>59</sup>, which include legal texts, the latter refers to those sources that have additional layer of interpretation and analysis<sup>60</sup>. Legal primary

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<sup>56</sup> Creswell, John W. (2014). *Research design: qualitative, quantitative, and mixed methods approaches* (4<sup>th</sup> ed.). Thousand Oaks: SAGE Publications

<sup>57</sup> Babbie, Earl (2014). *The Basics of Social Research* (6<sup>th</sup> ed.). Belmont, California: Wadsworth Cengage. Pp. 303-04.

<sup>58</sup> Andrews, Camille. “LibGuides: Scholarly Literature Types: Primary vs. Secondary Articles”. [Guides.library.cornell.edu](https://guides.library.cornell.edu).

<sup>59</sup> Healey Library, University of Massachusetts Boston, <https://umb.libguides.com/PrimarySources/secondary> accessed on 18.03.2020.

<sup>60</sup> Healey Library (n 18).

sources for this thesis are comprised of Tax Code of Kazakhstan, OECD Model Tax Convention and all the laws, rules and regulations on the taxation of electronic commerce enacted by Kazakhstan. These sources are scrutinized using doctrinal or 'black-letter' method<sup>61</sup>, which is a typical legal research approach presuming close scrutiny of statutes, case law and other legal sources. Interviews are another important primary source of information utilized in this work. They are conducted in a semi-structured fashion, i.e. they pose predominantly open-ended questions, which allows for a free flow of thought. The interviewees are three legal experts possessing specific knowledge and experience in the field of both domestic and international tax law. It is worth noting that open-ended questions benefit the research by making it possible to focus on specific issues to which an interviewee draws attention and which would otherwise have been left unattended. The list of questions is provided in Appendix 1. Secondary sources are as well engaged. These consist of journal articles of legal scholars investigating the research problem. The analysis of secondary sources is provided in the literature review section, which aims to give a comprehensive overview of most important scholarly works dealing with the issue.

The methods of data analysis employed in this work are content analysis<sup>62</sup> and narrative analysis<sup>63</sup>. As such the data gathered is then compared and contrasted to reveal similarities and differences and to uncover existing patterns.

### **1.7 Literature review**

This subsection provides an overview of the literature on the problem, i.e. the suitability of the concept of PE to electronic commerce. In particular it examines opinions of experts from different academic fields and those of OECD workgroups since it is OECD, which ultimately influences the definition of PE.

In December of 2000, in an attempt to adapt the Convention to the challenges of e-commerce, OECD issued its "Clarification on the Application of the Permanent Establishment Definition in E-commerce"<sup>64</sup>. The main idea of the commentary was to expand the definition of PE to include servers. Thus an enterprise was deemed to have a PE in a jurisdiction if it owned or rented a hosting server

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<sup>61</sup> Manderson, D., & Mohr, R. (2002). From oxymoron to intersection: An epidemiology of legal research. *Law Text Culture*.

<sup>62</sup> White, Marilyn Domas; Marsh, Emily E. (2006). "Content Analysis: A Flexible Methodology". *Library Trends*. 55 (1): 22-45.

<sup>63</sup> Riessman, C. K., 1993. "Narrative Analysis" (Newbury Park: Sage Publications).

<sup>64</sup> OECD, Clarification on the Application of the Permanent Establishment Definition in E-commerce: Changes to the Commentary on Article 5.

there. The rationale behind was the physical presence of the enterprise in that case. Websites, for that matter, were excluded. In the feedback to the commentary that immediately followed many authors criticized the new approach. Thus in his article *The E-com Strain on Tax Law Concepts* published in 2002 Robert Pahlsson<sup>65</sup> raised concerns that such amendments to PE can lead to tax evasion and as a consequence to double taxation since state authorities, in an attempt to protect its tax bases, may take internal legal measures such as the Controlled Foreign Corporation law adopted by US. Another issue that Pahlsson addresses, and the one to which all critics of the PE concept refer up till present day, is about the emphasis that definition of PE puts on physical presence of enterprise in a jurisdiction. Thus, to constitute a PE an enterprise must meet criteria, which apply to physical world only. But virtual presence, and with it the economic one, has nothing to do with physical world, he argues. As such Pahlsson asks “is it really reasonable, given the present technological conditions and opportunities, to use actual physical presence as a prerequisite for legal presence in a jurisdiction?”<sup>66</sup> He then hints on the need to invent a new concept, some sort of a virtual establishment – the idea, which was grasped already in 1998 by Luc Hinnekens and which will be discussed a bit later in this section. As was already mentioned, following Pahlsson other scholars as well focused on the issue of physical presence attacking it for its inability to capture income legitimately belonging to a state due to the absence of such presence. Rifat Azam, for instance, insists that, given current technological possibilities, an enterprise can provide its goods and services despite being physically present in a jurisdiction to a very limited extent<sup>67</sup>. Moreover, according to him, the direct access to consumers that Internet enables nowadays allows companies to carry out their businesses without any agents at all. He as well criticized the OECD’s commentary on article 5 discussed above concerning the inclusion of servers to the definition of PE. Namely, he claimed that physical presence of a server in one place does not mean that a company owning or renting it would necessarily derive its income from that same place<sup>68</sup>. Arthur Cockfield holds the same view<sup>69</sup>. In particular he states that “servers should never constitute PEs, mainly as a result of the fact that the location of a server need not have any geographic connection to activities that add value and create income.” He goes further and articulates two main problems with the amendment. First, PEs based on servers will not be able to differentiate properly between income belonging to source state from that of a resident state. Second, such PEs create favorable conditions for MNEs to shift revenues from their resident states thus indulging ill-natured tax planning activities. Moreover,

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<sup>65</sup> Robert Pahlsson, *The E-com Strain on Tax Law Concepts (EBOR 3 2002) 195-210.*

<sup>66</sup> Pahlsson (n 27) 202.

<sup>67</sup> Rifat Azam, ‘E-Commerce Taxation and Cyber Space Law: The Integrative Adaptation Model’ (Virginia Journal of Law and Technology 2007) 9.

<sup>68</sup> Azam (n 29) 13.

<sup>69</sup> Arthur J Cockfield, ‘Reforming the Permanent Establishment Principle through a Quantitative Economic Presence Test’ (38 Can. Bus. L.J. 2003) 409.

both authors raise concern that high mobility of servers can create premise for tax evading activities. I.e. when needed a server can be moved out of a source country or of the country where enterprise legally resides. Alexandra Bal agrees with colleagues stating that “current PE definition cannot capture and tax business profits generated by non-residents conducting business via digital technology”<sup>70</sup>. She makes an important point when she touches on the business of cloud service providers, who do not pay taxes to countries from which their incomes actually derive. Thus, for Azam as well as for Cockfield and Bal, there is no logical nexus between the place of a server and economic activity of an enterprise. The present concept of PE in the context of electronic commerce therefore seems largely meaningless to them. To avoid all these problems, i.e. tax evasion, double taxation, adverse tax planning activities, several authors offered to revisit the definition of PE. Among them is Luc Hinnekens, who proposed a new definition of PE – the concept of virtual permanent establishment<sup>71</sup>. The core idea behind is that, instead of fixed place of business, a PE should be considered created when there is a “continuous commercially significant conduit of business activity”. Despite it being seemingly logic the approach proposed by Hinnekens has its weaknesses. As Cockfield and Hellerstein claimed, enforcement issues arise since it might be difficult to enforce this new standard in practice<sup>72</sup>. Finally, virtual PE was considered by OECD in its 2015 report<sup>73</sup> prepared by its Business Profit Technical Advisory Group (BP TAG). Although the report acknowledged the need to expand the definition of PE to meet the needs of digital era, the concept of virtual PE was rejected. Mainly this was due to fact that new definition would require dramatic change to existing rules and such a change, in the eyes of BP TAG, so far is not justified since currently there is not enough evidence that Internet “had caused any significant decrease to the tax revenues of capital importing countries”<sup>74</sup>.

Thus as it can be seen from the literature review, the concept of PE remained essentially intact since its publication by OECD in 1963. Although the organization did amend the definition in 2000 to include servers, this did not affect its scope of application significantly bringing to the conclusion that the amendment as such was not supposed to change the concept dramatically in first place. Reading between the lines and in the words of Angela Carolina Vaca Bohorquez that seem to have wisely captured the essence of the problem “the current international tax law will be dramatically changed

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<sup>70</sup> Alexandra Bal, ‘*The Sky’s the Limit – Cloud-Based Services in an International Perspective*’ (IBDF Bulletin for International Taxation, September 2014).

<sup>71</sup> Luc Hinnekens, *Looking for an Appropriate Jurisdictional Framework for Source-State Taxation of International Electronic Commerce in the Twenty-first Century* (1998). Intertax 192.

<sup>72</sup> Cockfield (n 31) and Walter Hellerstein, “Jurisdiction to Tax in the Digital Economy: Permanent and Other Establishments” (2014) 68:6/7 Bull Int Tax at 348.

<sup>73</sup> OECD BP TAG, “Are the Current Treaty Rules for Taxing Business Profits Appropriate for E-Commerce?” (2015).

<sup>74</sup> OECD BP TAG (n 35) 168.

when capital exporting countries would stop fearing that their multinational entities are going to be affected by the imposition of taxes on capital importing countries.”<sup>75</sup>

### **3. Discussion and analysis**

#### **1.1 Electronic commerce and permanent establishment in Kazakhstan: applications and problems**

In case of Kazakhstan the first place to search for the definition of permanent establishment is the Tax Code of Republic of Kazakhstan. As such the Tax Code is ultimate and most important legislation that regulates PE. As of today the effective version of Tax Code is that adopted on December 25 of 2017 and amended on 10.01.2020<sup>76</sup>. In this version the definition of PE is provided under article 220 and almost verbatim repeats that of OECD Model Convention. In brief, under Kazakhstani law a PE is deemed established if a non-resident carries out his entrepreneurial activity via a fixed place of business or with the help of a dependent agent. Meanwhile a fixed place where non-resident undertakes auxiliary works that do not generate income is not to be considered to constitute a PE. Business activity carried out through an independent agent as well fall outside the definition of permanent establishment. The article also stipulates that international treaties concluded between Kazakhstan and other countries have priority over the Tax Code. Currently there are fifty-three double taxation treaties signed by Kazakhstan<sup>77</sup>. Ten of them, among which are treaties with UK, Netherlands, Switzerland, Japan, UAE, Singapore, Russia, USA, Pakistan and Vietnam, were analyzed for the purposes of this thesis. The analysis shows that on rare occasions the definition of PE retreats from that provided in the Tax Code and the Convention. Apart from the Tax Code and the treaties it seems that Kazakhstani legislation, unfortunately, remains largely silent on the issue of taxation of commercial transactions carried out between residents and non-residents via Internet.

As such at first glance it seems that as of today Kazakhstan adopted a somewhat passive stance towards the problem. This is not to one's surprise and does not indicate legislature's lack of foresight. As was discussed in the literature review section the question of the expansion of PE to embrace to the full extent e-commerce transactions refers to the field of interstate relations and thus cannot be decided by

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<sup>75</sup> Angela Carolina Vaca, 'Virtual Permanent Establishment: an approach to the Taxation of Electronic Commerce Transactions' (Revista de Derecho Fiscal n.o 8 2016) 101.

<sup>76</sup> The Code of the Republic of Kazakhstan dated December 25, 2017 No. 120-VI "On taxes and other obligatory payments to the budget (Tax Code)" (as amended and supplemented as of 10.01.2020).

<sup>77</sup> State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan. Retrived on 02.03.2020 from <http://kgd.gov.kz/ru/content/konvencii-ob-izbezhanii-dvoynogo-nalogooblozheniya-i-predotvrashchenii-ukloneniya-ot>.

an individual state unilaterally. Nevertheless, the experience of other states demonstrates that a balanced and wise adjustment of the legislation to the challenges of digital age, without gross violations of international standard of PE, is possible. Kazakhstan thereby can and should take such experience into consideration since it can benefit national economy while preserving friendly cooperative relations with other countries.

#### **4. Conclusion**

Overall it seems that currently Kazakhstan adopted a somewhat passive stance towards the problem. This is not to one's surprise and does not indicate legislature's lack of foresight. As was discussed in the literature review section the question of the expansion of PE to embrace to the full extent e-commerce transactions refers to the field of interstate relations and thus cannot be decided by an individual state unilaterally. Nevertheless, the experience of other states demonstrates that a balanced and wise adjustment of the legislation to the challenges of digital age, without gross violations of international standard of PE, is possible. Kazakhstan thereby can and should take such experience into consideration since it can benefit national economy while preserving friendly cooperative relations with other countries.

#### **Appendix 1. Interview questions**

1. What problems the fast growth of e-commerce globally poses to the concept of Permanent Establishment?
  - 1.1 Do you think this poses problems to double taxation/non-taxation?
2. Do you then think the concept of Permanent Establishment must be modified to handle this change?
  - 2.1 If yes, how?
3. How adequate in your opinion is the Tax Code of Kazakhstan to grasp this change in e-commerce?
4. What other measures, if any, Kazakhstan takes to deal with these new developments?
5. What measures, e.g. changes in legislation etc. does Kazakhstan have to take?

# **The problem of non-application of judicial practice as a source of law in the Republic of Kazakhstan.**

Kamila Sultan, MLLM, ID#2019 1303

The judiciary is an independent branch of state power, one of the pivotal institutions for the development of a legal democratic state and civil society. The subject of the exercise of the judiciary is the system of the judiciary, which has exclusive competence to resolve conflicts existing in society. The nature of the judiciary, its structure and system, largely follows and is determined by the function of justice (the exercise of the judiciary in the system of separation of powers) as the most important type of law enforcement.

The legal system of the Republic of Kazakhstan, along with the legal systems of some predominantly continental European countries, refers to the Romano-Germanic (continental) legal system. Unlike the Anglo-Saxon legal system (England, USA), where the precedent is the main source of law, the Romano-German legal system has a single hierarchically constructed system of sources of written law.

Recently, in the judicial practice of the Republic of Kazakhstan, there has been a tendency to make fundamentally different decisions on similar disputes, which reduces the quality of the judicial system.

This fact complicates the work of all parties to the trial. Firstly, it reduces the legal education of citizens, since when applying to the courts, they should be guided by a certain result, for example, in similar cases. Judges issuing acts may face the annulment of decisions on similar disputes by higher authorities, which affects the quality of their work. Lawyers and representatives of legal services and representatives may also encounter difficult circumstances in this matter. Moreover, the interpretation of normative legal acts, which are applied differently in similar disputes, is thus distorted.

This paper will examine the prospects for the application of case law in the Republic of Kazakhstan.

The emergence of case law is associated with the capture of England by William I in 1066. After the introduction of law common to the whole country, royal traveling courts arise, the competence of which included the resolution of cases with visits to places and on behalf of the crown. Decisions are made by judges based on local customs. Subsequently, the decisions taken by the judges became the basis for the consideration of similar cases by other judicial instances. Local customs and

generalizations of the royal court practice became the foundation for the establishment of a single system of precedents common to all of England, which was called "common law" ("common law"). The recognition of the binding force of the judicial precedent was gradual, the binding of the judicial precedent was selective: if the judges came to the conclusion that the previous decision meets the requirements of reasonableness, is distinguished by the quality of the arguments, then it was integrated into the current law system and became a judicial precedent.

In the Middle Ages, the greatest competition to common law was the law of equity. If someone did not find protection for their violated rights in the courts of "common law", he turned to the king - the source of all justice and mercy. Petitions were handed over to the chancellor. Since the Chancellor was the "spokesman for the conscience" of the king, he saw his task in administering justice precisely "in conscience." When considering cases, the Chancellor proceeded from the provisions of common law, but did not consider himself bound by them. Chancellors easily departed from decisions of common law courts if, in their opinion, they were contrary to law and reason.

King James I contributed significantly to the resolution of the conflict between common law and the law of justice. The king issued a decree according to which, when the norms of "common law" and "rights of justice" are in conflict, the latter are of primary importance. At the same time, it was established that the court of the Lord Chancellor should administer justice in accordance with the precedents of the right to justice, and the king should not use his power to create new courts independent of "common law". Later, the Law on the Judiciary of 1873 established: in the event of a conflict of case law and the law of justice, the latter takes precedence.

Thus, "along with the common law norms that have developed in the course of the activities of the Royal Courts of Westminster, also called the common law courts, English law also includes the norms of the law of justice, supplementing or amending the norms of common law".

The final formation of case law and its further modification took place from the middle of the XIX to the present. As a result of the judicial reforms of 1873 - 1875 and all subsequent reforms of the judicial system, a developed judicial system of courts was established with the definition of higher courts, whose decisions are of generally binding legal significance for lower courts.

What is a judicial precedent? From the brief historical review above, it is not difficult to present the essence of a judicial precedent: having examined the case, the court makes a decision, which, on the one hand, is a binding act for the participants in the considered case, and on the other hand, binding when similar cases are subsequently resolved by the same court or courts, equal or subordinate in

relation to it. Such a court decision, “as a special case of the application of law, in itself gives rise to a general j norm - it becomes a precedent”.

But the precedent is not the whole court decision, but a certain part of it. The judicial precedent is structurally divided into two parts:

Ratio decidendi (which is translated from Latin means: motive or basis of decision) - part of a court decision setting out the rules of law on the basis of which this case was resolved. It is this part that will be binding on all subsequent court decisions when considering similar cases. This forms the legal basis, which is normative and applies not only to the parties to this case, but also to all other persons. Accordingly, it is a rule of case law.

Obiter dictum (which is translated from Latin means: said in passing) - the rest of the decision, which contains the court's comments on issues that are not included in the subject of the court decision. Obiter dictum is not binding, unlike ratio decidendi.

Meanwhile, despite the absence in Kazakhstan legislation of principles and norms governing the existence of a judicial precedent, the above Normative Decree of the Supreme Court of the Republic of Kazakhstan allows us to talk about the emergence of the rudiments of judicial precedent in the domestic system of law.

So, in the Normative Decree of the Supreme Court of the Republic of Kazakhstan dated January 15, 2016 No. 1 “On the right of access to justice and the powers of the Supreme Court of the Republic of Kazakhstan” for the review of judicial acts” it is indicated that the Supreme Court provides a uniform interpretation and application of the Law in court proceedings. The uniformity of judicial practice, characterized by uniform approaches to the interpretation and application of the rule of law by the courts, is achieved not only through by the adoption of the Normative Decrees of the Supreme Court clarifying the issues of judicial practice, but also as a result of the cassation review of the judicial acts that have entered into legal force. At the same time, the Supreme Court’s activity in reviewing judicial acts aimed at ensuring their legality, validity and fairness is crucial for the formation of judicial practice.

The stated norm testifies that the decisions made by the Supreme Court in a particular case have a practicing formative effect, affecting the results of other similar cases, thus giving those involved in the case the right to invoke specific judicial acts in similar cases. These circumstances allow us to conclude that the introduction of elements of judicial precedent in the system of domestic jurisprudence.

It should be noted that such rudiments already find their place in a number of procedural laws. So, as the grounds for the cassation review of judicial acts subparagraph 3 part 6 of article 438 of the

Civil Procedure Code of the Republic of Kazakhstan, a violation of uniformity in the interpretation and application of legal norms by the courts has been established, similar norms are also contained in paragraph 3 of part 2 of article 485 of the Civil Procedure Code. These grounds are exclusive and do not interfere with overcoming the legal force of a judicial act in order to ensure the rule of law and the uniformity of judicial practice. Such an opportunity to review judicial acts is an essential legal guarantee for the realization of everyone's constitutional right to judicial protection of their rights and freedoms

At the IV meeting of the International Council under the Supreme Court of the Republic of Kazakhstan, held on November 10, 2017, the issue of international experience in the application of case law and the prospects for its implementation in national legislation was considered.

Member of the International Council under the Supreme Court of the Republic of Kazakhstan, academician of the National Academy of Sciences of the Republic of Kazakhstan, Doctor of Law, Professor M. Suleimenov He expressed the opinion that there are no grounds for introducing a precedent in Kazakhstan, but the need for the Specialized Judicial Collegium of the Supreme Court of the Republic of Kazakhstan to adopt model decisions "that could serve as a model for courts when deciding on similar cases, create conditions for the courts themselves to strive to follow conclusions and justifications contained in these decisions. " As a result, the Council approved a proposal to increase the regulatory role of judgments of the highest judicial body of the country, to ensure that judges of the Supreme Court issue model decisions. In addition, the proposals of the members of the Council regarding recommendations on granting the right to judges of local courts, when considering cases, to refer to decisions and decisions of the Supreme Court that came into force (with possible subsequent legislative consolidation of this issue) were approved.

What it will give us?

Applying the same law to the same type of cases, we should get similar ones, i.e. predictable decisions, so that everyone who goes to court knows approximately what result awaits them. This, in turn, creates legal certainty, predictability of law enforcement practice.

The main value of the principle of legal certainty lies in the stability of legal regulation and existing legal relations. "Legal certainty is necessary so that participants in the relevant relations can reasonably anticipate the consequences of their behavior, be confident in the immutability of their officially recognized status, acquired rights and obligations. This principle in the aspect under consideration has the goal of providing participants in the relevant relations with the opportunity to accurately predict the outcome of their actions, gives hope that their rights will be protected, the

principles for resolving the dispute by the law enforcer will be predictable and predictable, will not change from case to case, but will guarantee stability. "

The principle of legal certainty is one of the fundamental aspects of the rule of law. In our country, this principle is not legislated, however, it proceeds from the constitutional principle of the equality of all before the law and the court as a general legal criterion for certainty. Indeed, in essence, the equality of everyone before the law and the court proclaimed by the Constitution of the Republic of Kazakhstan can be ensured only if the norms of laws are applied uniformly.

At the same time, the importance of legal certainty has been repeatedly emphasized by the First President of the country.

So, speaking at the VII Congress of Judges of Kazakhstan, Nursultan Nazarbayev set a number of tasks for the courts of the republic, including raising the level of legal certainty, creating a stable and predictable judicial practice.

And in his message to the people of Kazakhstan dated October 05, 2018, "Growing Welfare of Kazakhstan People: Increasing Incomes and Quality of Life," the First President emphasized that "clear and predictable judicial practice is necessary, especially in disputes between business and government agencies, as well as eliminating the possibility of undue influence on judges. "

A stable and predictable judicial practice, when the same law is applied to different persons in the same cases, the same rule of law, is a guarantee of citizens' trust in the judiciary. And in this sense, the model judgments issued by the judges of the Supreme Court, without claiming the status of precedent, will play the role of some kind of benchmark institution of judicial practice. As a result, an effective legal mechanism will be created to ensure the equal application of legislation and the formation of a stable judicial practice.

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# Sanctions

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## Abstract

Sanctions have been used as punishment against states for over one hundred years. Sanctions are a key component of international law and may be a precursor to an act of war. The successes and failures of sanctions have been measured by many institutes. The Peterson Institute for International Economics sanctions database showed us, out of 200 covered sanction cases from 1914 to 2006, two out of three cases failed to reach their policy goals.<sup>78</sup> Another data set, observing 63 cases from 1991 to 2013, suggests that less than 25% targeted sanctions fail to reach their goal.<sup>79</sup> This article takes a look at the data collectively to see what works and what doesn't work. The United States have been using sanctions against states such as Cuba, Venezuela, and Iran. There are arguments that the sanctions are an act of aggression, use of force or may be violating human rights. Furthermore, in times of crisis or state of emergencies, shall states be allowed to pass sanctions that may harm or slow down a government's work in protecting themselves from the crisis? This article examines historical data and contemporary opinions on the usage of sanctions in relation to international law.

## Introduction

Sanctions are a legal component of international law that may be a last-ditch effort to avoid a serious conflict or war. Sanctions have been sitting in a highly debated position split between a savior against war and an aggressive economic attack. In Venezuela, where the US applied sanctions which prohibits the government from using US financial markets, the economy freefell into a deep recession.<sup>80</sup> Not only did the economic state of Venezuela suffer, the effects on human life and health were also

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<sup>78</sup> Hufbauer, Gary Clyde and Schott, Jeffrey J and Elliott, Kimberly Ann and Oegg, Barbara, *Economic Sanctions Reconsidered*. PIIE, 2008.

<sup>79</sup> Biersteker, Thomas and Eckert, S.E. and Tourinho, Marcos and Hudakova, Zuzana. *UN Targeted Sanctions Datasets Journal of Peace Research*, 2018.

<sup>80</sup> Weisbrot, Mark and Sachs, Jeffrey. 'Economic Sanctions as a Collective Punishment: The Case of Venezuela' *Center for Economic and Policy Research*, 2019, p 1.

disastrous. Could these supposed consequences be considered a collective punishment by the US administration against the Venezuelan people? The US is a signatory of the Geneva and Hague conventions which prohibits collective punishment of a civilian population. Or are the sanctions justified as a punishment against an aggressive government that would have experienced similar human life loss if there were no sanctions in place? If sanctions do have negative effects on the population as a whole, how can sanctions be better targeted? Targeted sanctions are a common description of sanctions used today that are specified to limit or stop one component, whether it be economic, military, trade, or an individual. The United States has had sanctions against Cuba for over 60 years and they have failed to reduce the ruling of Fidel Castro, his brother or their successors. What can we learn from the ineffectiveness of those sanctions? In 2020, The US continued its sanctions against Iran during a world health epidemic, in which Iran officials claimed were hampering the ability to accept needed health supplies due to the country's crippled oil dependent economy.<sup>81</sup> This continuation of sanctions was addressed by the UN Secretary-General Guterres where he urged, now is the 'time for solidarity not exclusion.'<sup>82</sup> During this time China and Russia, who are also under U.S. and European sanctions, have spoken out about lifting them. Antonio Guterres wrote to the G-20 economic powers that we are 'only as strong as the weakest health system in our interconnected world (Lynch).' But the U.N. Security Council are not likely to change their mind as they said there was no growing opposition or coordinated responses being considered for easing the sanctions (Lynch).

While the idea of sanctions being fair has its non-believers, there are many people standing by the use of the old legislature. Alister Darling, an ex-member of parliament of the UK, questions if we still want to live by the rules that we set up. For example, in a Reuters debate, he proclaimed, 'when we start trashing those institutions that we set up to police the world when they call into question the things that are being done, we got to think where is that going to take us. Think long and hard before

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<sup>81</sup> Dozier, Kimberly and Walcott, John. 'Trumps Iran Gamble: Will "Maximum Pressure" And COVID-19 Bring Tehran to the Bargaining Table?' *TIME Magazine*. Time, Mar. 27, 2020, <https://time.com/5811772/trumps-iran-gamble/>.

<sup>82</sup> Lynch, Colum. 'U.N. Calls for Rolling Back Sanctions to Battle Pandemic' *Foreign Policy Magazine*. The FP Group, Mar. 24, 2020, <https://foreignpolicy.com/2020/03/24/un-coronavirus-cuba-iran-venezuela-north-korea-zimbabwe-sanctions-pandemic/>.

voting to put sanctions to the side.’<sup>83</sup> In this article I am not looking for a, sanctions are ‘good’ or sanctions are ‘bad’ consensus. I hope to gain a better understanding of the legal limits sanctions may have.

### **Topic and Claim**

This article will explore the history and modern uses of sanctions by countries with more powerful economies against countries that violated international law. I will present the available data on the successes and failures of sanctions and see the progress or lack of progress the legal acts are fulfilling. Also, it is important to take a closer look at the effects of sanctions have on populations of the ‘punished’ countries to see if they violate human rights. I will try to discover if unilateral and multilateral sanctions could be considered a legal loophole for one country to legally punish a foreign government and their population in a way that could be considered aggressive or even a use of force.

### **Methodology**

The main methods I will use in this article are comparative analysis of legal opinions, quantitative data, historical analysis, current press releases and news articles. Legal sanctions are a broad topic and I will focus on the current uses by the United States administration. For the sake of comparison, I will also discuss sanctions adopted by other bodies, for example the United Nations, to show comparative results in reasoning, successes and failures. History also plays an important role in this debate due to its long use and general acceptance within international law.

Also, due to sanctions being applied by the wealthier states towards the poorest states it is best to include a fair number of sources from different research bodies to represent a balance of opinions. It is also important to point out that the varying opinions are sometimes politically and regionally divided.

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<sup>83</sup> Darling, Alister. “The Legal Debate.” *Legal Insights Europe*, Reuters, Oct. 9 2019, <https://www.youtube.com/watch?v=mtfSheVScFc>.

I believe this will be difficult to address for me so I believe for most arguments it is best to show the dividing arguments side by side.

Quantitative data will come from a number of research bodies studying the effects and success rates of sanctions. Research thinktanks, such as Peterson Institute for International Economics, and UN reports gives us access to valuable information of a number of sanctions throughout history with rankings of their successes and failures. This quantitative data will give us an insight into the failings of these sanctions which should raise concern as to why the practice is still a legal norm. As of Spring 2020, United States departments have over 30 active financial and trade sanctions.<sup>84</sup>

The United Nations has a long history of issuing its own sanctions whether unilaterally or multilaterally with other states, or bodies, including the United States. Although the direction and reasoning for sanctions often differ, as the United Nations have repeatedly disapproved of sanctions that the United States has applied to foreign governments and yearly encourages the USA to stop these sanctions. Because of the disagreements I feel it necessary to compare and analyze the sanctions between the UN and the USA.

While sanctions have been used as a legal method under international law for over a hundred years it is best to reflect on journal articles written at these earliest dates to get an understanding of the first arguments on the topic. These historical articles written in the early years of law journals offer an insight to the problematic uses of sanctions which some theorists echo today.

As of today, there is debate between legal experts and legal journalists on the uses of sanctions against nations during a global health pandemic. There are opinions that these sanctions are hindering nations, for example Venezuela and Iran, in importing needed health supplies and foreign funds to help the civilian population. On the other end there are press releases by the United States Secretary of State who gave specific reasons for the continuation of sanctions against states. It is important to bring

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<sup>84</sup> 'America's Aggressive Use of Sanctions Endangers the Dollar's Reign' *The Economist*. The Economist Group, Jan. 18 2020, <https://www.economist.com/briefing/2020/01/18/americas-aggressive-use-of-sanctions-endangers-the-dollars-reign>.

forward messages from state officials mixed with foreign opinions to consider the current uses of sanctions.

## Literature Review

The first article comes from Richard Hanania in the publication *Policy Analysis* by the research body CATO Institute.<sup>85</sup> The author highlights previously published reports and studies of how sanctions have had low success rates in successfully changing regimes, and causing negative effects on the population. These ideas are echoed similarly throughout the articles in this literature review so I will focus on the unique arguments. The author claims that US policy makers have no interest in the amount of studies that show sanctions fail because they really serve domestic political ends rather than foreign policy objectives.<sup>86</sup> This idea is highlighted three times in the article. In this theory the perspective on sanctions needs to be split in between political explanation and instrumental explanation. The author argues that instrumental explanation should not be taken seriously because the overwhelming research on the failures of sanctions is ignored and ‘cherry-picked’ in order to support policymaker’s decisions. Furthermore, the policymakers are not interested in actually using the leverage that sanctions make to obtain foreign policy goals. If they did use the leverage then the United States would communicate with the sanctioned government or individuals, make clear demands and suggest a ‘clear path towards the removal of sanctions.’<sup>87</sup> Sanctions in a domestic and political explanation, are appealing for leaders out of necessity. When British Prime Minister Lloyd George placed sanctions against Italy in 1935, he reasoned ‘they came too late to save Abyssinia, but they are just in the nick of time to save the government.’<sup>88</sup> The action to punish an enemy may seem necessary

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<sup>85</sup> The Cato Institute was founded in Washington DC in 1974 by the Charles Koch Foundation. The institute is libertarian in political policy and advocates for limited government roles in domestic and foreign affairs

<sup>86</sup> Hanania, Richard. *Ineffective, Immoral, Politically Convenient: America’s Overreliance on Economic Sanctions and What to Do about It*. Cato Institute, 2020, [www.jstor.org/stable/resrep23040](http://www.jstor.org/stable/resrep23040). Accessed 31 Mar. 2020.

<sup>87</sup> Hanania, Richard p 10.

<sup>88</sup> Hufbauer, Gary Clyde and Schott, Jeffrey J and Elliott, Kimberly Ann and Oegg, Barbara, *Economic Sanctions Reconsidered*. PIIE, 2008.

for a leader under domestic pressure. Applying sanctions instead of going to war is a safe measure for the reputation of the leader. I believe the author made a good case as to why sanctions are still commonly used today despite known faults.

Richard lists a few legal changes that can limit the negative effects of sanctions, first, Congress could make it more difficult for the executive branch to impose sanctions. Secondly, the US should limit sanctions to individuals or targets rather than large areas of trade. In the Democratic Republic of Congo, Joseph Kabila, who had already served his two-term limit as president, openly desired to run in the next election.<sup>89</sup> At this exact time, the US Government imposed sanctions on an Israeli mining billionaire in DRC, who was a close friend to Mr. Kabila. These sanctions were seen as a shock to the mining companies operating in Congo and, arguably, was a move that made Mr. Kabila stop from running in the elections in December 2019. This is a good example of individual sanctions that may have pressured a powerful person from committing a wrongful act. Thirdly, opponents of current policies must disseminate the shortcomings of the sanctions which may remove any political incentive to implement them. In conclusion I thought the author gave a clear understanding of why US policymakers use sanctions so often.

The next material is unconventional because it is not in written form. It is an opening dialogue at *Reuters* hosted debate called 'The Legal Debate: Sanctions are Fair and Effective.' Alastair Campbell, British journalist, author and broadcaster, opened his offense on one of the problems of the modern world, 'the something-must-be-done-ists.'<sup>90</sup> He argues, 'sometimes the best thing to be done, is something not too dramatic. Wait, pressurize, diplomatize.' He, as a journalist, admits that it makes media and politics boring, but things will continue. This viewpoint seems a little similar to Richards in the point that policy makers are applying sanctions as a type of show of power. I believe this to be a

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<sup>89</sup> "Donald Trump Uses Sanctions More Keenly than Any of His Predecessors," *The Economist*, The Economist Group, Nov. 24, 2019, <https://www.economist.com/united-states/2019/11/24/donald-trump-uses-sanctions-more-keenly-than-any-of-his-predecessors>. Accessed Mar. 29, 2020.

<sup>90</sup> Darling, Alister "The Legal Debate." *Legal Insights Europe*, Reuters, Oct. 9 2019, <https://www.youtube.com/watch?v=mtfSheVScFc>. Accessed Mar. 27, 2020.

strong argument of why sanctions are implemented in great numbers in international law. At the same time, I believe the argument leaves out an important component. International customary law. We have a lot of data on failures and successes of sanctions on countries. But what about the structural order of our international system. If one country only feared the penalty of war and invasion, how far would their policies go against international law? If sanctions were not legal, would countries have a larger breaking point of illegal activity before they were punished? These questions are hypothetical but may be of interest

## **Chapter 1 - The History of Sanctions**

Over 100 years ago the majority of jurists saw sanctions as an essential and irreplaceable element of law.<sup>91</sup> The *Continental Blockade* economic sanctions were used by Napoleon to keep British merchandise out of the ports of Europe, and by Turkey against Austria-Hungary due to the annexation of Bosnia and Herzegovina. These economic sanctions, or sometimes called boycotts, can be enforced by the people or by the government of one country and are an instrument for political objectives. In municipal law, a sanction is ‘the punishment and coercion of the law breaker.’<sup>92</sup> The term sanction can also be used to refer to positive sanctions, in which a nation could fight aggression by aiding its opponents. In 1913, sanctions were considered risky and one of the most important problems of international law. Even in the early developments of the law, it was known that proposing sanctions on other countries triggered further problems to the countries who give the sanctions. For example, if a number of countries all boycotted one nation it is sure that many of the countries would be depriving themselves of necessary foods. In further cases, for example in Napoleons *Continental Blockade*, the boycotted countries could create repressive customs as revenge which in turn may turn into a customs war.

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<sup>91</sup> De Maday, M. A. “Economic Sanctions in Cases of Violation of International Law.” *The Advocate of Peace (1894-1920)*, vol. 75, no. 11, 1913, pp. 257–259. *JSTOR*, [www.jstor.org/stable/20666846](http://www.jstor.org/stable/20666846). Accessed 31 Mar. 2020.

<sup>92</sup> Williams, Benjamin H. “The Coming of Economic Sanctions into American Practice.” *The American Journal of International Law*, vol. 37, no. 3, 1943, pp. 386–396. *JSTOR*, [www.jstor.org/stable/2192720](http://www.jstor.org/stable/2192720). Accessed 31 Mar. 2020.

Regardless of negative side effects by sanctions, British Foreign Secretary Austen Chamberlin told the League of Nations in 1925 that the great advantage of economic sanctions is ‘they do not involve the resort to force.’<sup>93</sup> The United States passed the ‘Trading with the Enemy Act’ in 1917 which allowed them to engage in economic warfare with enemies anywhere at any time.<sup>94</sup> The legal act became clearer in 1977, when Congress passed the International Economic Powers Act (IEEPA) which allowed the president to declare a national emergency when ‘any unusual and extraordinary threat, which has its source in whole or substantial part outside the United States, to the national security, foreign policy, or economy of the United States.’<sup>95</sup> Under this act the president may now sign an executive order declaring a state of emergency and list comprehensive sanctions or more selected sanctions to foreign individuals or businesses.<sup>96</sup>

In 1979, the motivation behind sanctions were divided into three categories: primary objectives, secondary objectives, and tertiary objectives.<sup>97</sup> Primary objectives relate to the actions and behavior of the target state. Secondary objectives relate to the status, behavior and expectations of the countries applying the sanctions. For example, politicians in the United States issued sanctions against Cuba in the hope to limit the spread of communism. Tertiary objectives refer to international considerations concerning the structure or behavior of the international system.

Today there are different forms and titles of sanctions: target sanctions, asset freezes, military sanctions, sports sanctions, and sanctions on environment, economic sanctions, which can ban trade, or diplomatic sanctions, which cut diplomatic ties, like in North Korea.

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<sup>93</sup> Hunter, David W. ‘Pre-World War 2 Through Cold War.’ *Economic Sanctions*, Palgrave, 1991, pp 14-25.

<sup>94</sup> Hanania, Richard. *Ineffective, Immoral, Politically Convenient: America’s Overreliance on Economic Sanctions and What to Do about It*. Cato Institute, 2020, [www.jstor.org/stable/resrep23040](http://www.jstor.org/stable/resrep23040). Accessed 31 Mar. 2020.

<sup>95</sup> 50 U.S.C. § 1701(a).

<sup>96</sup> See for list of Sanctions Programs <https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>.

<sup>97</sup> Barber, James. “Economic Sanctions As a Policy Instrument.” *International Affairs (Royal Institute of International Affairs 1944-)*, vol. 55, no. 3, 1979, pp. 367–384. *JSTOR*, [www.jstor.org/stable/2615145](http://www.jstor.org/stable/2615145). Accessed 31 Mar. 2020.

## Contemporary Uses of Sanctions

The United Nations Charter article 2(4) states that nations shall refrain from ‘threats or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the purpose of the United Nations.’<sup>98</sup> The word ‘force’ is ambiguous. It is not clear if we are talking just about an ‘armed attack’ or if it includes other forms of non-military force. The idea of economic force could also be argued as a ‘use of force.’ But with the current language of the charter, there is no clear international law which prohibits economic sanctions. The charter also grants collective action to maintain or enforce international peace and security.<sup>99</sup> But being in the United Nations body, this would require the Security Council to vote such actions into use. The UN Security Council has established 30 sanctions regimes since 1966 and today has 14 ongoing sanctions regimes ‘which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism.’<sup>100</sup> The UN website claims that the sanctions ‘do not operate, succeed or fail in a vacuum and the measures maintain international peace and security.’ Furthermore, the Security Council claims that their sanctions are not punitive arguing ‘many regimes are designed to support governments and regions working towards peaceful transition (“United”).’ Because sanctions require the approval of the Security Council, they need to be approved by all five of the permanent seats: United States, Great Britain, France, Russia and China. This rules out sanctions being imposed on any of the P5 and usually on any nations with friendly connections with the permanent seats, for example: Venezuela and Syria were blocked from UN sanctions due to opposition from China and Russia.<sup>101</sup>

**Conclusion** This article is an examination into the legal boundaries in which sanctions are being used today. Although sanctions are a key component in international law that work as protection against war, we need to assure that they are not having war-like effects on the targeted country.

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<sup>98</sup> United Nations, *Charter of the United Nations*, 1945, article 2(4)

<sup>99</sup> United Nations, *Charter of the United Nations*, 1945, article 24 and 25

<sup>100</sup> United Nations Security Council ‘Sanctions’ United Nations, 2002, <https://www.un.org/securitycouncil/sanctions/information>. Accessed March 25 2020.

<sup>101</sup> Hanania, Richard

# **Administrative Problems Faced in the Process of Obtaining Work Permits for Foreign Nationals in the Republic of Kazakhstan**

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## **INTRODUCTION**

Situated in the heart of Eurasia, Kazakhstan has been subject to the influence of powerful migration and demographic processes for over centuries. With the adoption of the Law on Migration of the Republic of Kazakhstan in 2011, a series of activities have been carried out: immigrants who are business owners and permanent residence holders have had facilitation in family reunions. This illustrates some of Kazakhstan's migration policies, and one of the reasons why Kazakhstan attracts immigrants seeking employment. However, this paper views and analyzes key obstacles that foreign nationals face during the process of work permit obtainment through multiple perspectives. Among these key obstacles are administrative problems faced during the obtainment of work permits and the nature of these problems. It is important to note that, this study has given a great importance to understanding the root of the administrative problems in migration and certain migration policies that are implemented nowadays. Therefore, the history of migration in the Republic of Kazakhstan and migration problems are viewed and analyzed in great detail.

As well as that, there is an attempt made to dive deeper and reach the root of these problems and establish if it may be corruption-related. Based on the results of a questionnaire, if the results are positive, the research will dig into the effects of corruption.

Thus, the aim of this research is to consider obstacles in work permit obtainment and state possible reasons behind this.

## **WORK PERMIT IN KAZAKHSTAN**

Primarily, I would like to start off by highlighting the fact that this section of the study focuses on differentiating some key moments as they are often mixed, some technical tips that are provided by large migration companies in Kazakhstan that have been working in the industry for over 10 years, and last but not least, governance and administrative structure and its relation to the effectiveness or the lack of it in migration-related processes. It is crucial to note that work permit and work visa are not the same things. According to WPK - an Almaty based company that has been professionally advising and accompanying its clients on migration issues for 15 years, "Work permit entitles a foreigner to work in the Republic of Kazakhstan, and work visa gives the right to enter and reside in the territory of the Republic" (2018). Therefore, it is clear that a work permit shall be obtained before getting a work visa.

In order to recruit a foreign citizen for work, a Kazakhstani employer shall issue a work permit. The current Government set certain rules and conditions to make sure that the local market is protected. Therefore, the issuance of a work permit and the presence of necessary qualifications such education or experience.

### **Common Obstacles**

First of all, it is sufficing to note that there are mainly two types of problems in the process of the obtainment of work permit: problems that are of administrative-governmental nature and document-related obstacles. The primary focus will be of administrative-governmental nature as it is closely related to decentralized decision-making process and transfer of the authority for policy implementation from the central to local level. As it was shown in Figure 2. Labor migration has many institutions that act both on central and local level. According to Issabekova, one can see that, each of the bureaucratic institution participating labor migration management play different roles and perform different functions and this indicates the variety of power possessed in the hands of migration officers (2018). This might lead to favouritism, corruption or cronyism. In fact, this model of decision-making is called bureaucratic model.<sup>102</sup> The bureaucratic model is not something separate from (but rather included in) the institutional theory.<sup>103</sup> Bureaucrats, according to the model, will follow the strategies and policy objectives depending on which results of policy implementation will meet better their professional and personal preferences.<sup>104</sup> And hence, the procedure is rather complicated, lengthy and bureaucratic. This could be one of the reasons why many citizens of the Central Asian countries work in Kazakhstan illegally. The next section of the study focuses on some common obstacles that foreigners face during the process of work permit obtainment.

### **Package of Documents**

Having covered the disparity between work permit and work visa, it is crucial to elaborate on the package of documents needed for the obtainment of work permit. In order to get the most accurate information on the issue several private migration offices webpages were scanned. Here, the guidelines

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<sup>102</sup> Shannon Gleeson, *Means to an End: An Assessment of the Status-blind Approach to Protecting Undocumented Worker Rights*, (Cornell: Cornell University, 2014).

<sup>103</sup>Eytan Meyers, *Theories of International Immigration Policy-A Comparative Analysis* (New York: Sage Publications 2000), 1260.

<sup>104</sup> Makhabbat Issabekova, *Strategic Ambivalence Above, Selective Implementation Below: An Institutional Analysis Of Kazakhstan's Policy Toward Skilled Labor*, (Astana: The School of Humanities and Social Sciences of Nazarbayev University, 2016), 44.

were provided by LLP Law company «Adept» that has been rendering its services in obtaining work permits and visa support in Almaty and Almaty region, including major international companies, for over 10 years. It is important to mention that a vast majority of documents had the same list of documents listed on their page, but “Adept” had a clear and brief explanation. Therefore, to obtain a work permit, you need to submit the following documents: 1. Apostilled (for CIS countries - notarized copies) documents with a notarized translation into Russian, confirming the required qualification level of the attracted foreign specialist (diplomas, certificates, etc.), which obtains a Work Permit. 2. A document / letter on the employee's labor activity (in accordance with the qualification requirements for the length of service and the relevant profession) on the official form of the employer, signed by the head, who previously worked for a foreign specialist. 3. A copy of the employee's passport with a notarized translation into Russian. 4. In the event that special conditions have already been assigned to your company, you must submit documents on their implementation. 5. Copies of bank documents confirming payment of the established tax charge for the issuance of a working Permit. Having collected these documents, the next step is to send a written invitation for a foreign employee to the Department of the migration service (migration service) on behalf of your company. At this moment two things will be given, first, the employer will receive a number and an invitation that is supposed to be sent to the foreign employee. Having received this number, the foreign employee may apply to the consulate of the Republic of Kazakhstan in the country of his/her citizenship or permanent residence. If and only if there are no problems in the procedures, the next step is the payment of the consular fee after which the visa shall be glued into the foreign employee's passport.<sup>105</sup> Another point that should be mentioned is related to the renewal of an existing work permit. If a foreign citizen wants to renew his or her work permit, a written request shall be sent by the company where the foreigner is employed with the request of the extension of the validity of the visa.<sup>106</sup> There are two important things that were mentioned in the previous section of this study and are intrinsically connected to work permit obtainment process. Firstly, in the case of a family accompaniment to Kazakhstan, family members shall obtain the visas of the same category as the foreign worker, however, the family members don't have the right to work. Secondly, there are countries which have certain agreements with the Republic of Kazakhstan, hence, they are not obliged to go through the same process. It is worth noting that visa

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<sup>105</sup>WPK Company, ‘GUIDE FOR AN EMPLOYER ON COMPLIANCE WITH THE MIGRATION RULES WHEN EMPLOYING A FOREIGN WORKER’ (WPK Company, November 2018) accessed November 2018

<sup>106</sup> WPK Company, ‘GUIDE FOR AN EMPLOYER ON COMPLIANCE WITH THE MIGRATION RULES WHEN EMPLOYING A FOREIGN WORKER’ (WPK Company, November 2018) accessed November 2018

and work permit shall be obtained before the arrival of the employee to Kazakhstan. Additionally, notification of arrival and passport registration are crucial parts of the process. According to the law, a notification to the migration service shall be written in 3 week days from the arrival day of the foreign laborer. In the notification it is required to specify name and surname of a foreigner, purpose of his/her visit and address of temporary residence. The notification of arrival doesn't only apply to foreign employees but to foreigners visiting the country even for touristic purposes. Secondly, passport registration is the responsibility of the employer as here he/she is considered to be the receiving party. In fact, the registration shall be done in 30 calendar days since the arrival day of the foreigner. Passport registration also applies to CIS citizens, hence, they should go through the same processes. When it comes to the citizens of Eurasian Economic Union member countries, matters are a little bit different compared to CIS. The citizens of EEU can register within 30 calendar days. The process of passport registration requires:

- The original passport of the foreigner
- A copy of the employment contract
- Work Permit

To sum up, this section emphasized the difference between a work permit and work visa. The detailed description given above shows the necessity and significance of work permit as processes such as passport registration for foreigners can't be carried out without the obtained work permit. That is to say, a work permit is a so-called founding piece of the whole process. However, there are many nuances to it and the obstacles faced during the process will be discussed in the next section.

## **Corruption**

It is no surprise that corruption is a serious problem not only in Kazakhstan, but also in many other post-Soviet countries. In the period of transition from command economy to market economy, the harmful tradition of close connections between the state and the business remained. Unfortunately, it is hard to find the boundary between private and state interests, and this has been a problem for decades. That is to say, formation of corrupt thinking in various state apparatuses is particularly widespread. Therefore, the aim of this study is to assess the possibility of corruption in the sphere of migration in the Republic of Kazakhstan. In fact, this section of the study is more practical as it is based on a questionnaire.

## **Conclusion**

The paper illustrates the scope of migration both internal and outward in the Republic of Kazakhstan. Here, a legislative framework was stated as a basis of this research. This study considers

EEU and The Law of Republic of Kazakhstan on Migration. As well as that, it is essential to note that the scope of this study is limited and not all of the research questions were answered. However, the questionnaire clearly demonstrated the relation between administrative-governance system and the inefficiency of the process, rather than corruption related reasons. Therefore, this particular study has found that a vast majority of problems are administration related rather than corruption-related.

### **Suggestions**

Overall, the administrative-governance system plays a significant role in the issue of work permit. The international treaties do not play a very significant role in this case since there are different rules for the member states of EEU. In fact, some of them don't need to obtain a work permit for a certain time unlike the countries that aren't in the EEU. Therefore, one can see that in this case, the administrative-governance system is vital and it sets the rules. As it was shown in the previous chapter, there are several institutions that are in charge of migration working independent of each other.

Suggestion Secondly, based on the questionnaire, in most cases the package of document that is listed on the official websites is not enough, that is to say, the acting administrative-governance institutions may require more documents, than a foreigner has. Therefore;

- Suggestion N.1 A change in the whole administrative-governance system in terms of migration in a way that makes these institutions more connected to each other.
- Suggestion N.2 A more accurate and standardized package of documents shall be developed.

# **Comparison between regulation of international sales of goods under the Kazakhstan legislation and CISG.**

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## **Abstract**

International sale of goods is the key element of the modern age of global trade and has the most important place in economic development of states. At the same time, contracts on the international sale of goods are often faced with different obstacles related to the differences between domestic laws and regulations of the contracting parties' respective states, such as the uncertainty in relation to damages and obligations of the parties in case of breach of the contract. In order to increase predictability and support international trade, states collectively created universal legal instruments for regulation of contracts of international sales of good. One such instrument is the United Nations Convention on Contracts for the International Sale of Goods (CISG) which entered into force in 1988 and has been ratified by 93 contracting states as of today. However, Kazakhstan is not among the contracting states of the CISG and provides its own domestic legal regulation of contracts involving the international sale of goods, which are domestically regulated as "foreign trade transactions" of foreign economic activity. The Kazakhstan Civil Code not only defines "foreign trade contract" and "contracts of international sale of goods" but also regulates such contracts by norms applicable to ordinary sale and purchase agreements. The lack of regulation of contracts on international sales of goods at the domestic level creates certain obstacles to the development of international sales relations. At the same time, these problems can be resolved by Kazakhstan adopting the CISG, which would serve as a solution for the more effective legal regulation of international sales relations. The aim of this thesis is to compare the regulation of international sales of goods under the domestic Kazakhstan legislation and under the CISG, noting key similarities and the advantages and disadvantages of each regulation. The thesis takes a comparative approach and makes special reference to the Civil Code of the Kazakhstan, its separate domestic legal acts, and the CISG.

## **Introduction**

The key characteristic of the CISG is its legal background, which is based on compromises between elements of legal regulation of both Common law and Civil law legal systems. The mixed nature of this legal background provides for legal uniformity and can satisfy contracting parties from both legal systems. However, Kazakhstan is not a member state of the CISG, and for contracts of international sales of goods the Kazakhstani legal system refers to its own conflict law rules in Private intentional law to define the governing law of the contract with foreign elements. By such poor regulation the Kazakhstan legislation limits the numbers of governing law to the law of one country and therefore the number of accessible legal instruments in cases of disputes or damages. The CISG's aforementioned mixed legal background can provide more uniform options.

## **Analysis**

The civil legislation of Kazakhstan does not categorize contracts for international sales of goods as separate types of contracts. However, the Civil Code of the Republic of Kazakhstan provides the term “foreign trade transaction” but does not provide its definition. The norm of the Civil Code only refers to the applicability of Kazakhstan law in regard to the written form of the contract in case one of the contracting parties is a Kazakhstani citizen or legal entity.

The position of the Kazakhstan Government in regard to the legal regulation of contracts on international sales of goods was explained in the official answer of the Minister of Foreign Affairs of the Republic of Kazakhstan to the question of a citizen on which law shall govern a civil contract for the sale, purchase and delivery of certain goods concluded between private legal entities, one side of which is a resident of the Republic of Kazakhstan, and the other side is a resident of the Republic of South Africa (the goods are delivered from South Africa to Kazakhstan) dated by 2017<sup>107</sup>.

The answer of the Minister provided the following:

“Currently, between the Republic of Kazakhstan and the Republic of South Africa there are no international treaties regulating civil law relations in the field of international sale of goods.

In the framework of multilateral documents, the legal relations under consideration are regulated by the Vienna Convention on Contracts for the International Sale of Goods of 1980.

However, today the Republic of Kazakhstan is not a party to this Convention.

However, in accordance with paragraphs 1 and 2 of Article 1084 of the Civil Code of the Republic of Kazakhstan (the Special Part), it follows that the law to be applied to civil law relations with the participation of foreign citizens or foreign legal entities or complicated by another foreign element is determined on the basis of this Code, other legislative acts, international treaties ratified by the Republic of Kazakhstan and recognized international customs.”

The aforementioned position can be considered as confusing, because even in case of defining the governing law and in case if such governing law will be the Kazakhstan law, the following question is arising: in what extent and which norms of the Kazakhstan civil legislation shall be applied to the contract of international sale of goods taking into account the separate regulation of each types of the contracts such as the sales of goods, supply contracts etc.

The extent of application of the governing law can be defined by the Civil code of Kazakhstan, which provides that the governing law of the contract will regulate the following<sup>108</sup>:

- interpretation of the contract;
- rights and obligations of the parties;

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<sup>107</sup> ‘Otvét Ministra Inostrannyh Del RK ot 26 iulya 2017 na vopros ot 11 iulya 2017 № 467846’ (Zakon.kz, 2020) <[https://online.zakon.kz/Document/?doc\\_id=37450219#pos=5;-88](https://online.zakon.kz/Document/?doc_id=37450219#pos=5;-88)> accessed 29 March 2020;

<sup>108</sup> Art. 1115.1. of the CC RK

- performance of the contract;
- the consequences of non-performance or improper performance of the contract;
- termination of the contract;
- the grounds and consequences of the invalidity of the contract;
- assignment of claims and transfer of debt in connection with the contract.

Taking into account the broad scope of application of the governing law from Kazakhstan legislation it shall be noted that CISG does not cover all aforementioned matters and such unregulated relations will be regulated by the law of the country applicable to the contract of intentional sale of goods even in case if CISG will be applied to the contract.

In case of application of Kazakhstan legislation for the contract of international sale of goods, which norms shall be applied? This question refers to the issue of absence of pure categorization of the foreign trade transaction in Kazakhstan legislation.

The Kazakhstani legal experts provide<sup>109</sup> that each type of the contracts provided in the Civil Code of RK can be considered as the foreign trade transaction contract. The main characterization of the contract as foreign trade transaction can be made on basis of the following elements:

- the presence of a foreign element, which is manifested in the participation of a foreign legal entity or citizen of a foreign state;
- the movement of goods, works or services across the state border.

Taking into account the aforementioned and grey area in Kazakhstan legislation in regard to separate regulation of the contacts on international sale of goods, for the purposes of this thesis it is supposed that relations between the parties of contract on international sales of goods will be regulated by the Kazakhstan norms applicable to the general contracts on sale and purchase, while general relations in regard to transaction, such as the offer and acceptance will be regulated by the norms provided in the General part CC RK.

In accordance with the CC RK by contract on sale and purchase, one party (seller) undertakes to transfer the property (goods) into ownership, economic management or operational management to the other side (buyer), and the buyer undertakes to accept this property (goods) and pay a certain sum of money (price) for it<sup>110</sup>.

After defining the applicable norms of Kazakhstan civil legislation for contracts of international sale of goods the comparison between the regulation under CISG and Kazakhstan law can be performed.

The comparison will cover the following four main areas provided in the CISG:

- the formation of the contract in part of the offer and accept;
- fundamental breach of the contract;

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<sup>109</sup> 'Dogovor v mejdunarodnom prave: kollizionnye normy' (*law.edu.ru*, 2020)

< <http://www.law.edu.ru/book/book.asp?bookID=1450224> > accessed 29 March 2020

<sup>110</sup> Art. 406.1. of the CC RK

- rights and obligations of the parties;
- exemption (freedom from the liability).

First of all, the main similarities between the norms regulating the formation of the contract related to the concept of the offer and acceptance, which serves as the basis for the formation of the contract. The norms of CISG provides that contract is considered as concluded at the moment when acceptance the offer became effective in accordance with the provisions of the Convention. At the same time the CC RK<sup>111</sup> provides that contract will be considered as concluded in case of receipt of acceptance by the person who sent the offer within the period provided in the offer.

The characteristics of the offer provided in the both CISG and CC RK are similar and provides the following:

- the offer must be sufficiently definite;
- the offer will be sufficiently definite if it indicates the goods, quantity and the price of the goods.

If the CISG provides the clear characteristics of the term “sufficiently definite”, the CC RK refers to the norms applicable to the contracts of the sale and purchase, because in Kazakhstan legislation each type of the contract has its own “material clauses” and such offer shall provide such “material clauses”. In case of achievement of agreement on “material clauses” the contract will be considered as concluded. The “material clauses” of the contract on sale and purchase under Kazakhstan legislation are similar to clauses provided in the CISG and includes the indication of goods, quantity and the price of the goods.

The same picture is related to the acceptance of the offer, but in regard to acceptance the Kazakhstan legislation provides more detailed regulation. If the CISG only provides that acceptance is the agreement with the offer will be considered as the acceptance, the Kazakhstan legislation provides that acceptance shall be full and unconditional<sup>112</sup>. But both CC RK<sup>113</sup> and CISG<sup>114</sup> has same approach to the silence as the acceptance and does not recognize silence in itself as the acceptance.

In addition, the similarity can be noted in part of regulation of counter offer. Both CISG<sup>115</sup> and CC RK<sup>116</sup> provides that acceptance to offer which contains additions or other modifications will be considered as counteroffer.

Second matter for comparison is the regulation of the fundamental breach of the contract. Both CISG and CC RK provides quite similar definition of the fundamental breach of the contracts stating that breach by one party will be considered as fundamental if the other party will be substantially deprived from what he was entitled to expect under the contract<sup>117</sup>. Furthermore, the similar formulations in regard to fundamental breach of the

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<sup>111</sup> Art. 397.1. of the CC RK

<sup>112</sup> Art. 396.1 of the CC RK

<sup>113</sup> Art. 396.2. of the CC RK

<sup>114</sup> Art.18(1) of the CISG

<sup>115</sup> Art. 19 (1) of the CISG

<sup>116</sup> Art. 397.4 of the CC RK

<sup>117</sup> Art. 25 of the CISG and Art. 401.2. of the CC RK

contract without any further clarifications such as the approximate sum of money which can be considered as substantial deprivation lead to consideration of cases of fundamental breach of the contracts individually by the courts. Therefore, the regulation of fundamental breach of contract are similar both under CISG and Kazakhstan law regulation.

Third area of relations for comparison is related to the rights and obligations of the parties of the contract. In accordance with the CISG the seller is obliged to deliver the goods, transfer the documents relating to it and transfer the ownership of the goods in accordance with the requirements of the contract and this Convention<sup>118</sup>, while the obligation of the buyer is obliged to pay the price of the goods and accept the delivery of the goods in accordance with the requirements of the contract and this Convention.

The CC RK<sup>119</sup> provides the similar formulation in regard to obligation of the seller to deliver the goods indicated in the contract. However, the obligation to transfer the documents for the delivered goods can be excluded by the parties in the contract<sup>120</sup>, which can lead to the further problems in regard to acceptance and transfer of ownership rights by the seller to the buyer. From such point of view the CISG can be considered as more advantageous for the contracting parties.

In part of the fulfilment of the obligation to deliver the goods both CISG and CC RK refers to the discretion of the parties, which defines the form of delivery (with carriage of goods or not). In case if the contract includes the clause on carriage of the goods, the CISG and CC RK provides different regulation.

The CISG<sup>121</sup> provides that if the contract includes the obligation of carriage of goods the obligation of the seller will be considered as fulfilled at the moment of handing the goods over the first carrier for transmission of the buyer. At the same time the CC RK<sup>122</sup> provides that if the contract provides the obligation to seller to carry the goods, its obligation to deliver will be considered as fulfilled in case transfer of goods by the seller to the buyer or entity entitled by the buyer. Such regulation under the Kazakhstan legislation can be considered as problematic taking into account the ordinary scheme of international sale of goods, where the seller concludes separate agreement with the carrier and in accordance with the norms of Kazakhstan legislation in case of failure of carrier to transfer the goods to the buyer it will be considered as failure of the seller correspondently.

The vice versa situation can be noted in case if the contract of international sale of goods does not provide the obligation of the seller to carry the goods. The CISG<sup>123</sup> provides that if the obligation of the seller does not include the carriage of the goods his obligation to deliver will be considered as fulfilled at the moment of the placing of goods at the place of business of the seller. Oppositely the CC RK<sup>124</sup> provides that in case if the

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<sup>118</sup> Art. 30 of the CISG

<sup>119</sup> Art.408.1. of the CC RK

<sup>120</sup> Art. 408.2. of the CC RK

<sup>121</sup> Art. 31 (a) of the CISG

<sup>122</sup> Art. 410.1.1. of the CC RK

<sup>123</sup> Art. 31 (c) of the CISG

<sup>124</sup> Art.410.2. of the CC RK

contract does not provide the obligation to carry the goods the obligation of the seller to deliver will be considered as fulfilled at the moment of transfer of goods to the first carrier.

It shall be noted that unlike to the CC RK the CISG provides that obligation to the seller to conclude all necessary contracts if the seller is obliged to ensure the carriage of goods. At the same time Kazakhstan legislation provides the formation of transportation network and its legal formalization to the own discretion of the parties.

The final fourth area of comparison is related to the freedom from liability in case of force majeure circumstances. The grounds for exemption from liability provided in CISG include the following characteristics of the force majeure circumstances:

- the circumstance was beyond of control of the parties;
- could not be reasonably expected to take into account at the moment of conclusion of the contract;
- could not be have avoided or overcome it or its consequences.

The CC RK<sup>125</sup> also provides the exemption from liability for parties in case failure to fulfil its obligations in cases of force majeure circumstances, which has the following characteristics:

- extremity;
- unavertable.

In addition, the CC RK provides the non-exhaustive list of such situations which includes the following:

- natural disasters;
- military actions.

In light of aforementioned it can be noted that CC RK provides the list of situations which will be considered as force majeure situation, while in case of CISG the defining of the circumstance as the force majeure will be on the discretion of the court or the contracting parties.

The similarities between formulations of the norms regulation contracting obligation in CISG and CC RK can serve as the evidence of the fact that CISG has not only common law basis, but has most of the elements of civil legal system.

## **Conclusion**

On the basis of the analysis above between the legal regulation of contracts of sales of goods it can be seen that CISG regulation and Kazakhstan regulation are similar in most parts, in particular in part of conclusion of contracts, offer and acceptance and rights and obligations of the parties. Therefore, the ratification of the CISG by Kazakhstan is a feasible option and will not require grandiose amendments and adaptations to the legislation. In addition, the ratification of the CISG can become the basis for developing the international sales relation between Kazakhstan and other contracting states that have adopted the CISG. Fortunately, such a point of view

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<sup>125</sup> Art. 359.2. of the CC RK

is supported by the Kazakhstan Government which has been working on the adaptation of Kazakhstan legislation for ratification of the CISG since 2017<sup>126</sup>.

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<sup>126</sup> ‘Pismo Ministerstva Nazionalnoi Ekonomiki Respubliki Kazakhstan ot 25 avgusta 2017 № 24-1/652-И’ (Zakon.kz, 2020) <[https://online.zakon.kz/Document/?doc\\_id=38962562#pos=6;-106](https://online.zakon.kz/Document/?doc_id=38962562#pos=6;-106)> accessed 29 March 2020

# **The Changing Role of Artificial Intelligence in Our Society**

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## **Abstract**

What is the role of Artificial Intelligence in our society today? Is it an aspect which will simplify our lives, making them more measured, thorough and efficient or is it disruptive technology that will take over control lacking any interpersonal human characteristics? Some authors believe that thinking cannot be created simply on the basis of program, while others believe that there is a demand for granting legal personhood and human rights to the AI, highlighting the need for correct interpretation and evaluation of the legal system towards them as an entity. Thus, this puts to question of how artificial intelligence can be correctly incorporated into everyday lives, without arising concerns of morality, legality and conscience, thus causing humans to be responsible for the consequences as a result of the actions performed by the AI? Artificial Intelligence today is present in various parts of our everyday routine, ranging from making financial decisions, purchasing property, playing some competitive sports as well the possibility of even establishing a whole new branch of jurisdiction. Therefore, there is a need to explore this impact in the context of law and its role in the formation of products and services that employ robots, especially in combination with the economic and demographic pressures that occur in the global flow of trade. Today there is a great variety of software programs available to purchase and integrate, which replace human experts in various fields of business and science ranging from finance, to medicine and even real estate, with the possibility of AI to obtain property rights. That is the reason for the focus not being solely on innovation and development but on regulation and legislation but with a clear, concise and a fair way to exercise them.

article focuses on the need to explore this impact in the context of law and its role in the formation of products and services that employ robots, especially in combination with the economic and demographic pressures that occur in the global flow of trade and thus effecting all areas of everyday lives, ranging from home and workplace to hospitals, supermarkets to various other infrastructures. At this stage robotic systems are at very early stages of development however it is expected that they will significantly reduce complexity while increasing productivity, utility and efficiency. Therefore, in order to control this process, there is a need to examine various legal, regulatory and ethical implications of using robots and robotic systems. The law will occupy an important step in the formation of products and services provided by robots.

Using the current legal system available in reference to AI would however bring up a great number of further questions, like whether AI can demand basic rights of a legal and moral person, guaranteed by current legislation? Should the robots that assist us in our everyday task have these rights themselves and what exactly are they entitled to? A good example would be real estate laws. The question which would arise would be of the possibility of AI to obtain property rights. Real Estate after all is not just a resource, but a respectful factor as recognition of a person as an individual, so can the same aspect be applied to a robot?

For the past forty years, humanity has made a stunning leap in the development of technologies that sometimes go beyond the limits of the human imagination. Digital computers are becoming an integral part of human life. Artificial Intelligence has begun the process of replacing many professions, leaving a large number of human personal skills pointless unnecessary or simply inefficient.

Today there is a great variety of software programs available to purchase and integrate, which replace human experts in various fields of business and science ranging from finance, to real estate, to medicine to discovery and even intellectual sports. The program Deep Thought for example, used to beat one of the best chess players in the world, caused a lot of publicity, demonstrating the true possibilities of AI versus the human.

The market is flooded with various software and computer engineering programs which are incorporated in all major organizations of the world, to simplify the working process and increase efficiency. With the current trend of modernization and technological advancements it is inevitable that the coming of the new century will present the perfect platform for the development of Artificial Intelligence. These changes seem inevitable and at times necessary. Artificial Intelligence will be incorporated into our lives one way or another as we evolve as a race. The focus however should be not only on innovation and development but on regulation and legislation. The issue of control should be clearly established, written down and put to awareness. Control is an essential element in Artificial Intelligence, the only difference is there should be a clear and concise and a fair way in which it is exercised. The possibilities of the human kind are incredible and depths are unexplored. However, it is the issue of responsibility that should be highlighted, remembering the need to establish the correct boundaries and ethics with the coming of the new technological era.

## **Introduction**

What is the role of Artificial Intelligence in our society today? Is it an aspect which will simplify our lives, making them more measured, thorough and efficient or is it disruptive technology that will take over control lacking any interpersonal human characteristics? The question of how artificial intelligence can be correctly incorporated into everyday lives, without arising concerns of morality, legality and conscience, thus causing humans to be responsible for the consequences as a result of the actions performed by the AI? Artificial Intelligence today is present in various parts of our lives, ranging from making financial decisions, purchasing property, playing some competitive sports as well

the possibility of establishing a whole new branch of jurisdiction. The discussion raised by various authors focuses on this interaction between the AI and the society in general.

Artificial Intelligence is observed and analyzed through a great variety of viewpoints, one of them perceiving artificial intelligence as a legal entity, with a full-fledged legal personality of the state. through the research on the development of artificial intelligence and its probable possibilities of existence in a form of a person's trustee. The cognitive side of artificial intelligence is considered as necessary, but insufficient for practical reasons stressing the pragmatic side of the existence of intelligence presented as a legal organism as a rather significant aspect. Rene Descartes was the first individual who first who put to question the possibility of a machine to think and reflect as a person. A person can understand the structure of a machine by its responses to bodily actions, which in turn lead to a change in its mechanism. Artificial intelligence, for example, might ask what we want; or that it may claim to be hurt, but never, does it organize the speech in such ways, which allow it to respond appropriately to everything that can be said in its presence, as the most ordinary person would. Therefore, Descartes main argument was that AI are unable to “respond appropriately to everything that can be said in his presence.”

A good example of an interesting experiment is one conducted by John Searle, called The Chinese Room. The experiment involves a group of individuals locked in a room. A numerous amount of Chinese writing is coming into the room, however you have no comprehension of the Chinese language or writing. However, you are provided with a rule book written in English with the appropriate manual to interpret any given Chinese character. The rule book thus provides you the opportunity to create a string of Chinese characters without actually understanding the language, which you then can send outside of the room. Those outside the room, play some version of what is called the Turing game. They in return are convinced that everyone within the room understands Chinese, while those individuals who are located in the room simply follow the instructions (which we can call a program) based on the form of Chinese characters provided for them in the manual. Searle believes that this thought experiment shows that neither you nor the instruction book (program) understands the actual worth of the Chinese, despite having the ability to imitate the understanding of Chinese characters in the program. Therefore, according to Searle, thinking cannot be created simply on the basis of the program and that AI cannot fully comprehend the meaning of words expressions and symbolism they provide. Searle believes that computer programs respond only to the syntactic properties of the characters with which they work with and thus lacking any human character and characteristics.

If we could use a different kind of thought experiment and change the Turing test so that the hypothetical situation focuses the attention on the pragmatic consequences and look at two different development models: the script of the guardian and the script of the constitutional personality. One of them is considering the possibility of artificial intelligence having the universal competence that is inherent in man. The trustee scenario raises these questions of ability and responsibility. The focus of the law, in the event of the first scenario, should be the question of whether AIs' can function as proxies. "Can the AI do the job?" this is the question the law should ask.

“For example, it can be argued that a person is identical to humanity - that possession of the genetic material homo sapiens is a necessary and sufficient condition for a person. However cognitive science can give us a completely different picture of personality - a picture that calls into question the equivalence between people and people. At the other end of the spectrum, AI research can give us an idea that groups have rights that are not limited to individuals.

Reflecting on the question of whether AI should ever become legal entities sheds some light on the complex issues that the personality status law is confronted with. This does not mean that we have discovered a person who solves complex questions about the boundaries of status. Rather, thinking about the personality for AI forces us to admit that we currently do not have enough resources to develop a fully satisfactory theory of legal or moral personality.”<sup>127</sup>

Not all authors share Searle viewpoint on AI and while diving into the aspect of the actual personality of the AI, the cautionary role of Ridley Scott's movie Blade Runner of 1982 inevitably come to mind. It acts an instructive story about this role of law in a technologically advanced environment. In the film, there is a regime that first uses the law to create creatures with superpowers and a predetermined life expectancy, and then define them as inhuman or non human deprived of a legal personality simply for the sole use by actual humans. The film encourages the need for the recognition of law from a wider perspective, touching upon the legal issue of what actually is the definition of being human as well as illustrating a view of a social society that combines technology and law to support unreasonable use of authorized authority. The movie demonstrates how despite being machines these technological objects can actually reflect human fears, which result in the opening of their destructive potential and thus causing them to turn against their own creators and fight against the regime formed by the government in order to exploit these machines, using these non humans to highlight the power and supremacy of actual human beings. Despite the fact that the film “Blade Runner” was released in 1982, it received

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<sup>127</sup> Lawrence B Solum, 'Legal Personhood for Artificial Intelligences' [1992] 70(4) North Carolina Law Review 1232

wide resonance in society, was successfully adopted, and subsequently received many followers of this genre which emphasizes the demand for granting the legal personhood and human rights to AIs’.

In the film called *Artificial Intelligence* also referred to as *A.I.* shot by the famous Stephen Spielberg in 2001, demonstrates the story of lab creation of intellectual being referred to as the Replicants of the human race. The film focuses on David, a children's android program, which was created in order to replace a human child and touches upon the theme of the responsibility that we as creators hold towards the creations that we make. The film demonstrates the lack of responsibility that we hold towards the replicants created for the human race. They were created as beings better than human and thus treating them as less than that can actually cause a backlash on the entire human race. This is in fact the scenario that unfolds in the actual movie when humans become extinct in the future and AI use their intelligence to try and reconstruct the human race.

The questions brought attempt to analyze and evaluate the responsibility of humans in response to the technology they create, thus taking the time and effort to actual role and function of this new technology and most importantly highlight the correct interpretation and evaluation of the legal system towards them as an entity.<sup>128</sup>

The authors of the article *Robotics and law: Key legal and regulatory implications of the robotics age (Part I and II)* understand that the addition of various AI systems to automate the decision making process to build knowledge from the various data available has a potential to be highly disruptive, this way supporting the viewpoint from *Blade Runner* and AI movie adaptations. Therefore this article focuses on the need to explore this impact in the context of law and its role in the formation of products and services that employ robots, especially in combination with the economic and demographic pressures that occur in the global flow of trade and thus effecting all areas of everyday lives, ranging from home and workplace to hospitals, supermarkets to various other infrastructures. At this stage robotic systems are at very early stages of development however it is expected that they will significantly reduce complexity while increasing productivity, utility and efficiency. Therefore in order to control this process, there is a need to examine various legal, regulatory and ethical implications of using robots and robotic systems. The law will occupy an important step in the formation of products and services provided by robots. Robotization gives rise to the rapid development of the market for goods and services, and despite the quite satisfactory regulatory legislation, there might still be a need for a brand form of law.

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<sup>128</sup> Shulamit Almog, *When a Robot Can Love – Blade Runner as a Cautionary Tale on Law and Technology*, Ius Gentium: Comparative Perspectives on Law and Justice (Springer Science + Business Media Dordrecht 2013) 181

The sole purpose of the Robolaw Project launched in March 2012 by the European Commission, was to observe the ways robotics should be regulated in future and provide suggestions and guidelines for legislators and regulators on how to move forward. The budget of 50 billion euro was used to understand if the existing laws in Europe could deal with this new technological advancement as well if there would be a need for new regulations to be developed. The focus was on three main areas. The first one is the understanding of the legal framework by the manufactures for product development and avoiding liability issues. The second point focusing on the aspect of protection for the consumer and society by these devices that may cause harm or affect their rights. The last part emphasizes the need to continue to promote new technology and create new business opportunities.

The applications however need to be designed in such a way to protect values of human dignity, safety, health and most important privacy. This has to be combined with responsibility of who will be held accountable for the acts caused by robot? A good example would be a driverless car to which it might be rather challenging to apply traditional legal doctrines to deal with issues of civil and criminal liability or simply ethical issues such as swerving off the road if you are inevitably about to hit someone who is crossing the road in the wrong place. Similar issues exist in the field of healthcare. Robotics in the area of health care is an area with great potential and fundamental developments in the areas ranging from elderly care to formation of prosthesis, to conduction of minimally invasive and complex surgical procedures. Yet we are once again presented with ongoing problematic issues of safety and regulation, followed by privacy and ethics. What are the consequences if a robot causes you damage by malfunctioning, how safe is the massive amounts of personal data stored and collected by them? Would care for the elderly free up human carers but deprive those the old people of any form of human contact.

That is the reason for the strong focus on the need for legal regulation of robots especially those in the field of healthcare. Most of the current regulatory framework is successful in working with robotic technologies in healthcare, however due to the fast pace of the development of robotics, it is necessary to constantly increase security and control measures, as well as create laws and regulations in regards to the use of personal data. When AI is used to process personal data, data protection laws, including the Data Protection Act 1998 (DPA), will apply to this processing. There is a need to strike a balance between maximizing the benefits of these large data sets and ensuring a good level of DPA compliance. The existing WP29 guidance provides a useful starting point, however would the current regulations be enough to keep up with this fast developing pace of new technological advancements.<sup>129</sup>

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<sup>129</sup> Chris Holder and others, 'Robotics and law: Key legal and regulatory implications of the robotics age (Part I of II)' [2016] 32(3) Computer Law and Security Review 383

Using the current legal system available in reference to AI would however bring up a great number of further questions, like whether AI can demand basic rights of a legal and moral person, guaranteed by current legislation? Should the robots that assist us in our everyday task have these rights themselves and what exactly are they entitled to? A good example would be real estate laws. The question which would arise would be of the possibility of AI to obtain property rights. Real Estate after all is not just a resource, but a respectful factor as recognition of a person as an individual, so can the same aspect be applied to a robot? In order to fully comprehend the situation it is vital to image a scenario where a major company like google creates an AI named “Clive” which not only acts as tool to achieve the goals of any given entity but has actually a mind of its own, replicating the cognitive state of the human mind and the ability to generate knowledge. Therefore in order to understand the relationship between the AI and real estate property rights, it is important to distinguish the role of this AI in three possible hypothetical scenarios.

In the first scenario is the option of an AI acting as an agent in real estate transactions if today they act as agents in various capacities, so for AI there is a basis for entering into this role. Here Clive will act on behalf of his employer and the agency law would be used to govern any arising situations. It is quite easy for any court to treat him as an agent to his real estate principle, as he does not own any real property but is simply assisting actual agents in various transactions. The second scenario allows Clive to own property in the same way as a corporation. Corporations are artificial persons created by the government and therefore they do have some common traits with Clive. In this example, the AI will own property on its own behalf, but provide wealth to its shareholders and exercise oversight by individuals. If Clive would have no human oversight, he would be entitled to own property like any natural person, which brings us to the third scenario. If corporations can own real property why can't that right to be extended to Clive, especially since many of these corporations are run on software similar to that of Clive. Plus Clive would still have the oversight of the government if owning any property as any other person would, with the government having the ability to seize any property in case of any legal issues arising. While most legal and political arguments oppose such an extension of ownership of AI. The analysis of current US law and its policies the ownership of real estate concludes that each robotic unit should have the right to own and dispose of property if a person speaks and gives the robot the status of an independent individual in the future. It would just require the courts to interpret the laws in a such a way that would force them to overextend judicial discretion looking far beyond the actual intent of law. In fact it would be very challenging for the courts to find that Clive would not meet the criteria for corporate personhood. It would therefore be possible to extend to Clive this form of control as long as there is legal guardianship if the form of board of directors, managers or simply the shareholders. If the local legislations provide gaps which can justify the ownership of property and

estate by the AI, how much freedom and power can we provide for them in our everyday lives? The ideology of equality and respect is what creates the human component in the actual theory of real property. If scholars for centuries have argued about the issue of the morality and property ownership towards corporations and whether they deserve property rights in the first place, how easily should these rights be then extended to any forms of AI. Therefore considering the fact that moral principles are directly connected to property ownership, we should very critically thoroughly analyze the situation before extending these privileges to AI entities like Clive.<sup>130</sup>

## **Conclusion**

For the past forty years, humanity has made a stunning leap in the development of technologies that sometimes go beyond the limits of the human imagination. Digital computers are becoming an integral part of human life. Artificial Intelligence has begun the process of replacing many professions, leaving a large number of human personal skills pointless unnecessary or simply inefficient.

Today there is a great variety of software programs available to purchase and integrate, which replace human experts in various fields of business and science ranging from finance, to real estate, to medicine to discovery and even intellectual sports. The program Deep Thought for example, used to beat one of the best chess players in the world, caused a lot of publicity, demonstrating the true possibilities of AI versus the human.

The market is flooded with various software and computer engineering programs which are incorporated in all major organizations of the world, to simplify the working process and increase efficiency. With the current trend of modernization and technological advancements it is inevitable that the coming of the new century will present the perfect platform for the development of Artificial Intelligence. These changes seem inevitable and at times necessary. Artificial Intelligence will be incorporated into our lives one way or another as we evolve as a race. The focus however should be not only on innovation and development but on regulation and legislation. The issue of control should be clearly established, written down and put to awareness. Control is an essential element in Artificial Intelligence, the only difference is there should be a clear and concise and a fair way in which it is exercised. The possibilities of the human kind are incredible and depths are unexplored. However it is

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<sup>130</sup> David Marc Rothenberg, 'Can Siri 100 Buy Your Home? The Legal and Policy Based Implications of Artificial Intelligent Robots Owning Real Estate Property?' [2016] 11(5) Washington Journal of Law, Technology and Arts 440

the issue of responsibility that should be highlighted, remembering the need to establish the correct boundaries and ethics with the coming of the new technological era.

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# **Russian soft power in Central Asia**

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## **Abstract**

This work is devoted to conceptualization of “soft power” concept in academic science, studying Russia as a particular case of a hard country with an alternative approach to soft power. Applying the theory of neoclassical realism to explain the logic of employing Russian soft power, this research is aimed to revealing the effectiveness of the Russian strategy in the Central Asian region, as well as the reasons and factors that determine the advantages of Russian soft power in such weak and at the same time authoritarian countries as Central Asian.

*Key words:* “soft power”, “Russian soft power”, “neoclassical realism”, “Central Asia”.

## **Introduction**

In the XXI century, channels of state influence on international processes and other countries are expanding. If until recently, hard power was considered almost the main instrument of foreign policy: military power, economic and technical potential, today the country's ideological persuasiveness and cultural attractiveness are getting to be more important factor of influence than possession of nuclear weapons and economic success. Because at least soft power tools are cheap and relatively feasible comparing with hard ones, which serves in our days as means of deterrence policy.

Having emerged as a fundamental concept of the school of American political liberalism, “soft power” had a significant impact on the formation of US foreign policy, including in the states of Eastern Europe, Africa and Central Asia. It gave rise to the concepts of "democratic interventions", "democratic peace" and "human security", became the core of the scenario of the "Arab Spring" revolutions in the Near and Middle East and the post-Soviet space. And therefore, all this undoubtedly speaks of the relevance of soft power today, and also requires a thorough study of the doctrines and tools of “soft power”, their effectiveness and the measure of responsibility that a modern state should translate, transmitting “soft power” in the interests of external expansion and broadcasting their values to other actors in International Relations.

Thus, today Soft power is becoming one of the primary elements of the non-military power whose significance is increasing in this context of geopolitical rivalries, including in the Russia – West confrontation, where soft power can serve as the means of legitimizing the foreign policy actions and expanding the influence over foreign countries. The sides of the Russia – West confrontation have shown strong determination to benefit from this form of power and to invest massively in projects in order to win over the hearts and minds of people and to influence the public opinion in the former

Soviet countries. For this purpose, both Russia and Western countries seek to develop more effective public diplomacy, propaganda, and counter-propaganda in this region, where Central Asia also plays significant role as Russian traditional sphere of influence. Just it is enough to recall how in 2016 for the fiscal year 2017, the US State Department requested funds to continue working with the media in Central Asian countries to counter the “Russian propaganda machine” ( see <https://vz.ru/politics/2016/6/10/815402.html>).

It is no secret that this region is extremely important for Russia - it is, in fact, the only part of the post-Soviet space where active processes of reintegration of the former Soviet republics with Russia (in the format of the CSTO, EAEU) are discovered, Russia is connected with Central Asian states by cooperation in energy, security, counter-terrorism, etc. However, in recent years, Russia has been experiencing increasing competition in Central Asia for influence from a number of other states, and especially Western ones. It turned out that Russia is far from the only force capable of being an important player in the region, despite the assurance in the opposite of many politicians in Moscow immediately after the collapse of the USSR. Even in those countries that are considered closest to Russia (for example, Kazakhstan), elites consciously pursue a multi-vector foreign policy, which makes the undivided Russian dominance in Central Asia impossible.

### **Problem statement**

Conventionally, soft power is the ability to achieve the desired result in international arena by using attraction and influence rather than coercion and force (Nye, 2013). In contemporary world political power is not static, it changes, evolves, grows, expands or decreases. Therefore, the problem emerges concerning the presence of a specific Russian perception of soft power, which derogates from a classical theory and that is why is worth investigating.

Thus, using the neoclassical realism in explaining the Russian perception of soft power *that aims to undermine the western influence and juxtapose its own views and values*, this work makes contribution to evaluation of the success and limits of Russian anti-western soft power in Central Asian states.

In this regard, there is a need, first of all, to consider the Russian vision of soft power and further understand the strategy of Russian soft power in this region and answer the main question: **Is the Russian model of soft power effective in Central Asian states?**

Thence, the research questions of our thesis are following:

1. How is the theory of soft power re-conceptualized within the Russian context?

2. Why one Central Asian states can be purely considered loyal to kremlin, while some prefer to distance from it. What are the factors behind this?

This paper is inspired, on the one hand, by the lack of literature scrutinizing the soft power of the hard states and, on the other hand, by the interest in how Russian soft power implemented in the CA states. By doing reconceptualization of Russian soft power through using neoclassical approach, this research work aims to provide a better understanding of how soft power concept was transformed to fit the Russian setting and to contribute to a general discussion on how hard states adopt and adjust soft power. Thus, the significance of our research can be explained by, that studying Russia as a particular case of a country with an alternative approach to soft power will contribute to an overall understanding of what 'soft' means in various contexts and extend academic knowledge on the soft power concept. Moreover, the significance also increases when it comes to practical application of the explained theoretical approach.

### **Methodology**

This study is based on a qualitative research design. The choice in favor of qualitative research occur from the intangible nature of soft power that is in general about such hardly quantifiable elements like perception and attraction. As the aim of this paper is to understand transformation of the soft power concept in the Russian context and to assess its resources, quantitative methods do not seem to offer enough explanatory function. Consequently, qualitative research is more appropriate for the enquiry on Russian soft power discourse and the way it re-shaped the soft power concept.

In order to investigate Russia's soft power towards Central Asia different research instruments were invoked in the work. The combination of analysis of scientific literature, secondary data analysis and discourse analysis can help to answer the research question in the appropriate way.

### **Literature Review**

Russia's soft power concept is a relatively new theme in the academic literature and remains noticeably under-researched. There are number of scholars who attempted to analyze the theoretical framework of soft power, namely, to what extent does the Russian understanding correspond or deviate with the concept offered by Joseph Nye (Lukyanov, 2009; Nye, 2010; Troitski, 2011). This group may also be supplemented with such equally well-known names as Kisileva (2015), Morozov (2015), Zahran G. and Ramos L (2010). In particular, this category of the researchers having different approaches and using various methods made a great contribution on the addressing problems around the concept. One of the first major critical pieces on the soft power concept was *Soft Power and US*

*Foreign Policy: Theoretical, Historical and Contemporary Perspectives* edited by Inderjeet Parmar and Michael Cox. In their chapter in this book, Geraldo Zahran and Leonardo Ramos (2010: 24), critically analysing the soft power concept from a Gramscian perspective and the distinction it presents between consent and coercion, argue that “disregarding hegemony, Nye creates the illusion of an aspect of power that could exist by its own only through consent, ignoring the social reality populated by intrinsic mechanisms of coercion.” In response to this critique, Nye (2010: 217), in the same book, points out that “Even if Zahran and Ramos are correct that under hegemony, coercion and consent are complementary, that is not the same as saying that soft power is always rooted in hard power. Sometimes it is and sometimes it is not.” Regarding this contradiction, Chinese scholar Mingjiang Li (2009) suggests that the term “soft use of power” would be more appropriate than “soft power,” because “soft power does not exist in the nature of certain resources of power but rather it has to be nurtured through a soft use of power.” Thus, these scholars made clear to academic community that the relationship between the two types of power (hard and soft) still remains unclear and diffuse. Neither Nye nor anyone else has ever written a convincing analysis on the distinction and relationship between hard power and soft power. Thus, many scholars rightfully maintain that the concept of soft power lacks “academic refinement,” is “under-theorized,” “misunderstood,” or “difficult, if not impossible to test empirically” (Ichihara 2006 ; Li 2009; Vuving 2009). There have been numerous analyses on soft power, but neither Joseph Nye nor anybody else has provided clear answers to fundamental questions about the concept (e.g. What is soft power? How does it work? Who can produce it? Why do states need it?). The existing literature on soft power gives the impression that soft power is everything non-military. Moreover, it is also complicated task to provide the acute definition of power in International relations, which is still the subject of heated debate among scholars, not to mention its types.

Another main subject of debate is the Nye’s (2013) considerations that soft power inextricably linked with Western norms and values, and therefore, states that are on different paths are bound to fail “miserably.” However, this assertion implies “an obligatory respect for international norms and institutions, as well as an adherence to freedom, democracy, liberalism and pluralism” (Wilson 2015: 289), but in reality, as a matter of fact, both democratic and non-democratic, liberal and illiberal states utilize soft power as part of their foreign policy toolkit and invest extensively in cultivating power over popular opinion abroad. It is often acknowledged that non-democratic great powers also reach success in these policies (Tsygankov 2005).

It has to be noted, that idea about soft power came long time before the Joseph Nye’s refer. In fact, the founders of realism emphasized the importance of winning power over the minds and feelings of foreign publics. The concepts developed by Edward Carr (1951) (“power over opinion”) and Hans Morgenthau (1965) (“cultural imperialism”) reflected on non-hard power elements. However, the next

generations of the school focused on the systemic variables as the primary determinants of international relations, conceptualized power as the combination of military and economic capabilities and disregarded its non-material dimensions. Stephan Walt's *Origins of Alliances* (1987) is one of the studies that widened its analysis beyond military and economic power. In his work, Walt ascribes importance to geographic proximity to explain alliance formation, his argument that internal factors (perceptions, elite's or society's preferences) matter in alliance politics and that material capabilities and power structures cannot explain everything. (Walt, 1987)

The consideration of domestic non-state (state) actors as a potentially powerful political player by neoclassical realism lays ground for its analysis of the use of soft power by great powers to affect the external alignment of states in contested regions. Neoclassical realism does not define power as only elements of material power, but includes other elements, such as "individual leadership (whether dominated by charismatic statesmen or trouble-makers), the quality of government, the competence of its administrators, and a government's reputation or track record in world politics" (Ripsman et al. 2009: 297). *Neoclassical Realism, the State and Foreign Policy* (2009), edited by Steven Lobell, Norrin Ripsman and Jeffrey Taliaferro, is the first comprehensive book on neoclassical realism. The authors have refined the theory and elaborated on the distinctions and commonalities between it and other branches of realism. The book serves as a useful resource to understand neoclassical realism's conceptualization of the internal political system as an intervening variable. It, however, has not explained the policies that great powers pursue to reach out to actors in target states and realize the desired shifts in their external alignment through the manipulation of their internal political system. Nor have other neoclassical realist scholars, some of whom have supported the incorporation of the soft power concept into the analytical toolkit of neoclassical realism, examined soft power as an instrument in the competition of great powers to expand their sphere of influence.

In terms of application of Russian Soft power on Central Asian states, there are negligible number of works, which scarcely provide with explanation and justification regarding the effectiveness of such policy. Most of the works, like Gusarova's (2017), Omelicheva (2018), Ospanova (2018), Oztertem (2009), Muratalieva (2014), Saginday (2017), Bogdanova (2016) focused on the evaluation of the Russian institutes and instruments called upon create the attractive image of the state. The core reason of their critique lies on absence of direct work with the youth and presence of Soviet model of soft power, which still defines the Russian compatriots as a main source of attaining desired results in the targeting country (the sort of Russian 5<sup>th</sup> column). Researchers underscores that Russian soft power has different level of influence in the region, however none of the works did not tried to find answers on why in some Central Asian countries, the Russian soft power policy works effectively and in some does not, taking into consideration relatively equal position of states in economic and geographical

terms (Kassenova, 2018). Moreover even concerning the Central Asia- Russian relations - Why it turned out to be that Russia has more engagement, in the case of Kazakhstan; dependency, such as Tajikistan; balancing, for Uzbekistan; bandwagoning in the case of Kyrgyzstan; and selective engagement in the case of Turkmenistan ? (Frier, 2009) Why one states can be purely considered loyal to kremlin, while some prefer to distance from it. Therefore, our thesis is mainly directed to find out possible explanations using Neoclassical realism theory advanced by Stephen Waltz:

1. On Russian perception of soft power;
2. On evaluation, is the Russian model of soft power effective in CA and what factors influence on this?

### **Theoretical argument**

The theoretical argumentation of the work is formed on the hypothesis that if nuclear armed great powers (hard powers) compete against the same type of powers to expand or sustain their sphere of influence over a populated region, they use soft power as a major expansive instrument while military power remains a tool to defend themselves and underpin their foreign policies. However, the paper underlines the point that the success of soft power projection by the great powers depends on the internal structure of the target states. If the weak state with authoritarian regime, has close inter-elite ties with great power with a certain level (primarily in order to gain certain benefits), then the exerted soft power will be effective enough and the state will bandwagon to Great power. Conversely, if such relation does not exist, then in such states great power may not find a favorable environment in which to trigger soft power and influence the external orientation there. The non-military instruments the great powers deploy and the policies they pursue to undermine the foreign influence in the weak states with the aim of impacting their foreign policy preferences will be analyzed in this work under the umbrella of the soft power concept. The thesis seeks to reconceptualise soft power in the light of neoclassical realism. This approach treats soft power as a dimension of power that states make use of to reach their foreign policy goals. The thesis establishes a model that would allow for the study of different sources of soft power and the strategies states develop to produce it. The reason that necessitated the reformulation of the concept of soft power is related to problems and contradictions in the existing literature on the subject. The model developed in this concept follows the logic of realist scholars in its analysis of soft power. Herein the thesis refers particularly to the concepts “power over opinion” of Edward Carr (1951), “cultural imperialism” of Hans Morgenthau (1965a), and “transnational penetration” of Stephan Walt (1987). It examines both public diplomacy and propaganda strategies as part of the great powers’ policies to wield soft power. According to this model, no matter whether it is

deception or truth, seduction or manipulation, foreign aid or propaganda, all types of policies to reach out to foreign publics and intentionally affect their perceptions and attitudes can be gathered under the umbrella of soft power making. As militarily powerful states can use all types of military power (air force, navy, nuclear weapons, etc.) to force the target to do what they wanted of them, the states enjoying high levels of soft power can use a wide array of instruments to wield power over popular opinion of the target state with eventually similar purposes. The model also suggests its conceptualization of the hard power – soft power nexus.

### **Russian interests in the region**

Moscow's interests in Central Asia has primarily directed to combat Islamic terrorism and radicalism and foster stability along its southern flank. Security related drivers, which explain Russian presence in Central Asia can be seen in coordinated states' efforts in the fight against terrorism. For example, the Russian leadership initiated the CIS Anti-Terrorist Center (ATC), which was established in Moscow in 2000. A structural subdivision of the ATC was opened in Bishkek, Kyrgyzstan. The intensified military and security cooperation of Russia with the former Soviet Union republics was institutionalized in the Collective Security Treaty Organization (CSTO), which permanent military base was established in Kant, Kyrgyzstan, in 2002. The base hosts part of the Collective Rapid Deployment force (CRDF) designed to support "collective security" of the region. Another CRDF division is staged at the 201st Military Base in Tajikistan. This is Russia's largest military facility abroad with the estimated 7,500 military personnel in 2016 (Laruelle, 2008). In the same time, President Putin invested considerable time and effort to reenergize another security grouping, the Shanghai Cooperation Organization (SCO). The original mandate of the SCO was limited to the issues of border demarcation and demilitarization. By 2002, the organization expanded its objectives to the fight against "three evils" of terrorism, Islamism, and separatism to assuage security concerns of its founding members – Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The SCO's Regional Anti-Terrorism Structure (RATS) was established in Tashkent in 2004. Conjoint antiterrorist operations, military exercises, and security drills held under the auspices of the SCO and CSTO have become a regular feature of Russia-Central Asia security cooperation. The CSTO has also implemented the annual international counter-narcotics drills Kanal (Channel), and instituted the Collective Rapid Response Force in 2009 to counter aggression, terrorist attacks, and drug trafficking operations (Omelicheva, 2011).

On the other hand, According to Omelicheva (2018) and Io (2015), Russia has ignored the Central Asian states' internal dynamics conducive to political instability, terrorism, and organized crime. The Kremlin-led regional security projects have had a negligible impact on the root causes of security problems that continue plaguing these states. A number of ad hoc events, according to them,

showed little results to creating a more favorable regional environment. Even CSTO does not become the security provider in the region. Consequently, the absence of security related drivers of Moscow in the region could be explained by the fact that, it turned out that Russia has transformed from a transit territory into a main point of supply for Afghan heroin (see <http://en.itar-tass.com/russia/755981>). Today, according to moderate estimates, the number of drug users in Russia is 1.7 million, and there has been a sharp increase in drug-related diseases such as AIDS / HIV (Nechepurenko, 2013). Moreover, another argument in favor of this claim is the fact that the Kremlin was the main initiator of the communique adopted in the 2005 SCO Summit in Astana, calling for the closure of US bases in Central Asia. This reversal showed that the balance between security and geopolitics is due not only to regional circumstances, but also to the state of relations between Russia and the United States in a broader international context. For instance, Foreign Minister Sergei Lavrov criticized with the “artificial deadlines” (premature) for the withdrawal of NATO forces. (see <http://en.afghanistan.ru/doc/353.html>) At the same time, Moscow accused the US and NATO of "abusing hospitality" in Central Asia and forced Kyrgyzstan to terminate the lease agreement by the Americans for the base / transit center in Manas. (see <http://en.ria.ru/russia/20130508/181039938-print/Putin-Criticizes-ISAF-for-Afghan-Drug-Threat-Inaction.html>) In addition, he accused Washington of sharply increasing production of Afghan opium and heroin and increasing the flow of drugs to Russia, but blocked US proposals for developing a network of drug control centers in the Central Asian republics. Therefore, despite the loud statements against the threat of “triple evil” (terrorism, separatism and extremism), the penetration of Western liberal ideas causes Moscow more concern, as evidenced by Russia's attempts at the meeting of the SCO leaders to stimulate “international information security” (SCO Summit Declaration).

Thus, it can be stated that Russia’s engagement in Central Asia has been driven by geopolitical motives superseding its immediate concerns with the regional security threats. Russia has sought regional domination under the banner of counterterrorist policy for countering the US hegemony and NATO’s expansionism. In the 1990s, Russia’s own economic, political, and military problems stymied the realization of Moscow’s ambitions. By the turn of the twenty-first century, the global economic situation was favorable to the realization of Russia’s geopolitical objectives. Russia’s economic upturn coincided with Vladimir Putin’s rise to power. The restoration of Russia’s influence in international affairs was declared the chief priority for the Putin administration. Therefore, Central Asian region as a major Russian sphere of influence cannot be understood outside of the context of Russia-US relations.

The tasks of Russian politics in Central Asia are primarily related to the factors of importance of the region. They also reflect the challenges and requirements that Moscow faces in realizing its agenda. In practice, this means that Moscow has no serious intention to revive the Soviet Union. Despite the public expression of regret over the collapse of the USSR, V. Putin is pragmatic enough to

realize the impracticability of the project for its restoration. Instead, Moscow is striving for leading influence, for the type of relationship similar between the Chinese empire and dependent states on its periphery. Russia seeks to ensure that the adoption of political decisions by Central Asian states were carried out within certain parameters and in accordance with certain “Rules”, which follow interests of Russia, especially in the field of foreign and security policy. This consequently means that the Central Asian republics cannot be equal to foreign powers or alliances - primarily the United States and NATO, but also the European Union, China, Iran and Turkey. Ideally, Moscow wants them to join various Russian-led projects, such as the Eurasian Economic Union (EAEU) and the Collective Security Treaty Organization (CSTO). Accordingly, Moscow seeks to prevent the participation of external forces in regional affairs or, at least, control them. Understanding the impossibility of completely eliminating such interactions, the Kremlin believes that it has at least the ability and the right to influence them. In practice, this is expressed in two forms: firstly, stimulating foreign partners to cooperate more in the economy than in the security sphere, and secondly, the preference of China and other non-Western countries to European and American. Russia's favor with China is explained by the fact that the Chinese avoid strategic ambitions, limit their participation in security projects in Central Asia and support Russia's role as a regional leader (Lo, 2015).

### **Russian soft power: the role of narratives**

A series of developments in the recent decades have contributed to the rise of soft power. On the one hand, information revolution is another important factor thanks to which soft power has gained more importance in foreign policy. For some, even the rapid developments in technology and communications are the most central driving force in this process (Nye, 2013). On the other hand, even though the world community has not managed to found an international Leviathan that can oversee and control international affairs, the world has gone a long way in this direction after the World War II. The establishment of numerous international organizations, non-governmental organizations, conventions, international courts, etc. has dramatically affected the modus operandi of international relations. Under these circumstances, great powers feel more pressured to seek ways to materialize their foreign policy agendas through non-military means and to justify and legitimize their foreign policy actions with well-established arguments. For the justification and legitimization of their controversial manoeuvres, states might refer to historical events, precedents, interpretations of international law, etc. The quality of narratives is an important factor in foreign policy. (Huseynov, 2018)

Similar to USA, Russia has been developing its own normative vision and is attempting to promote it abroad. She consistently promote her visions in forums such as United Nations and in

regional organizations such as the SCO. In Central Asia, for example, Russian authorities are aware of the possibilities of new media and have established a state-funded international television network to broadcast in English. Prime Minister Putin's has called for the creation of a special department for Interregional and Cultural Relations with Foreign Countries at the Kremlin to utilize Russia's soft power dimension more seriously. (Tsygankov, 2005) In response to the "Color Revolutions" in Eurasia and Central Asia, Putin endorsed "continuing the civilizational" role for the Russian nation in post-Soviet space.

Moscow has taken a more assertive foreign policy since the U.S. entry into Central Asia after the 9-11 attacks and the resulting influence of Western NGOs. In response to increased Western exposure in the region, Russian has trained its own youth organizations, restricted the activities of western NGOs in Russia and warned the United States against interference with Russia's domestic developments. Russia's soft power strategy was articulated in a Foreign Ministry report called "A Review of the Russian Federation's Foreign Policy." Commissioned by the Kremlin and released 27 March, 2007, the report advocated for a "more equitable distribution of resources for influence and economic growth" and defended the notion of collective leadership and multilateral diplomacy as an alternative to unilateralism and hegemony in international relations. Russia has taken a greater role in developing its own version of democracy as well. The Kremlin's leading ideologist, Vladislav Surkov, defined sovereign democracy as "the need to defend an intellectually determined path to political development and to protect economic prosperity, individual freedom, and social justice from potential threats ... [such as] 'international terrorism, military conflict, lack of economic competitiveness, and soft takeovers by 'orange technologies' in a time of decreased national immunity to foreign influence." (Tsygankov, 2005) Increasing Russian soft power is deemed a vital national security interest and one that is necessary to offset the United States' hegemonic ambitions. "We view the appearance of a powerful military bloc on our borders ... as a direct threat to the security of our country," Putin said of the Western promotion of "Color Revolutions" after a 2008 NATO summit.

The illiberal paradigm of democracy is attracting smaller states to the Moscow axis. For example, "the Central Asian states, finding the American liberal democracy a price too high, followed the Russian model ... in which states, through the vote of their people, can choose the social system they feel best for them. Unlike liberal democracies, with institutions committed to upholding liberties through a system of checks and balances, the Russian model is conceived of a strong elected executive who coordinates institutions of national power."(Hiro, 2010) This magnetic appeal is not limited to the Central Asian members of the SCO, but also is gaining traction in other regions of the world, where democracy is a tertiary concern to social justice, economic security and stability. In this way, Russia reflects the language of democracy used in the West while refracting its usage to correspond with her

own interests. Such a strategy shifts the narrative in her favor because, although she adopts the language of the norm, she encodes it with her own meaning.

In case of perception of such Russian anti-western soft power in Central Asia (that aims to undermine western influence and juxtapose its own version), there can be observed the following situation. If we take for analysis the Ukrainian crisis, the maidan is pictured solely as a West-sponsored initiative in attempt to encroach Russia. For example, it is not surprising to hear people in Tajikistan, Kazakhstan or Uzbekistan talk about the Russian role in Ukraine as nothing but protection of Russian ethnic minority against the neo-fascist government of Kiev. Moscow's skepticism towards Ukrainian latest political elections reflected in Central Asian social networks too. In the absence of own democratic elections, Uzbeks and Kazakhs did not abstain from ridiculing the fact a comedian became the new president of Ukraine. Calling Ukrainian politics "a circus", Central Asians seem to share the unspoken belief of Kremlin about democracy being an unwanted mess. (Dost, 2019) In high governmental level, Russian soft power impact is expressed in copycats of legislatives. For example, Russia's normative agenda has also influenced Kazakhstan's and Kyrgyzstan's parliamentary discussions on their own versions of Russia's anti-gay and anti-NGO laws. Both governments submitted anti-gay bills; Kazakhstan's did not pass, Kyrgyzstan's did. Kazakhstan did pass a foreign agent law and laws restricting NGO activities and unsanctioned protests. Kyrgyzstan's Parliament refused legislation against NGOs as foreign agents or unsanctioned protests, but validated a law defending the religious feelings of believers against any kind of 'offense' or 'blasphemy'. All these legislative efforts are explicitly based on Russian laws. The Kyrgyz homosexual propaganda bill was widely seen as an effort to gain support among the conservative electorate. In Kazakhstan, even if the bill did not pass, it appears that the interparty links between Nur Otan and United Russia inspired the copycat mechanism; a Kazakh MP noted "the geostrategic position of Kazakhstan" among other moral and cultural justifications for the nature of the bill and its timing. (Laruelle, 2017)

Thus, making the focus precisely on conservatism and traditional values, Russia has some advantages in the ranks of Central Asian countries, and Russian propaganda covering news in the style of anti-Westernism, according to many experts, has relative success. Analysts of Gallup research Center, Michel pointed out one result of his research. "I was looking at a poll just the other day...a Gallop poll examining anti-American, anti-Western attitudes worldwide, and the country that saw the largest drop-off in terms of views on the West, especially on America, in the entire world was Kazakhstan...and Tajikistan was also in the top five. And I think that helps highlight some of the efficacy of the recent soft power approach from Moscow." According to him, Russia has "a very big impact, a very big influence to Central Asia, especially on Kyrgyzstan", because the presence of

Western actors much more bigger than in any other states in the region, therefore, Moscow makes considerable efforts there no less than in her “near neighborhood”. (Rieser, 2012)

### **Russian soft power Instruments**

Concerning the instruments of soft power that Kremlin use in CA, we can mention economic tools, military diplomacy, cultural and regional mechanisms.

*Economic tools.* Although the Ukrainian crisis has shown that the Kremlin continues to trust primarily military force, it usually proceeds from the principle that co-optation is more effective than coercion, and that is why resorts to several interconnected strategies: maintaining interconnectedness that has remained from Soviet times (and earlier) in response to globalization promoted by the West and external competition - significant technical assistance; the employment of millions of labor migrants whose remittances are essential for the survival of some regional economies (in particular, Kyrgyzstan and Tajikistan); strengthening ties between the interests of business elites.

Moscow continues to have big hopes for *military diplomacy*. This is most evident in the presence of a significant Russian military contingent in Tajikistan and the existence of large Russian military bases such as Kant in Kyrgyzstan and Aini in Tajikistan. The objectives of this presence are radically different from those that prompted Russia to use troops and bases in Ukraine, Georgia and Moldova to exert pressure on Kiev, Tbilisi and Chisinau, respectively. In Central Asia, the presence of Russian troops is not aimed at undermining, but on the contrary, at supporting existing regimes and demonstrating Russia's need for this process. Military assistance programs have a similar function and serve to strengthen interdepartmental ties.

The Kremlin's strong faith in the multipolarity of the great powers does not prevent it from exploiting the *regional multilateral mechanisms* that it uses to underpin advance Russia's national interests and their legitimization. We can say that the CSTO and the EAEU play a role similar to that of the Warsaw Treaty Organization and CMEA during the Cold War. Moscow is not particularly attracted to the idea of regional integration as such. It is important that these organizations support the key strategic goals of Moscow-controlled post-Soviet Eurasia, as well as Russia as an independent “pole” of the international political system. Moscow's instrumental approach can be illustrated by its attitude towards the Shanghai Cooperation Organization (SCO). The fact that this organization is the largest in Central Eurasia has a negative aspect for Moscow. And if the Kremlin sees a certain benefit of the SCO for challenging the legitimacy of Western institutions and politics, it is not interested in making this organization an effective engine of regional integration, since this integration would take place on conditions determined by other players. China's leading influence in the SCO runs counter to Russia's vision of Eurasia. As a result, Moscow blocks China's efforts to create an SCO free trade zone.

*Cultural diplomacy* remains an important means of promoting Russian interests. Emphasizing “civilizational unity” and shared values is in line with the more global goal of Russia-led Eurasia. Through the communication of mass culture (television shows) and news broadcasts to a wide regional audience, the Kremlin expects, in essence, to create The Moscow Consensus is similar in its effect to the famous (albeit fictitious) Beijing Consensus. The main idea of the Kremlin is that Russian culture and values are much better suited to Central Asia than the destructive ideas of the West.

### **Evaluation of Russian success in soft power strategy**

While at present Russia remains the de facto leader of the region, in the same time many scholars emphasized that, similarly to the EU, Russia’s efforts have not been successful in the whole region. While some countries have been bandwagoning with Russia, others have followed individual paths and rejected closer ties. Even in the most Russophile CA states, the attitude towards Russia is sometimes referred to “forced interdependence” or “let the sleeping dog where it is”. In addition, and perhaps more importantly, Moscow’s idea and use of soft power portray CA as a fundamental part of the ‘Russian world’. And while most of CA states welcome cooperation with Moscow, as noted by Valenza and Boers (2018), their elites have been able “to play cats and mouse” and to make balancing exercises, as in the case of Kyrgyzstan, which willingly accepts financial help from both Russia and the EU. Thus, Central Asian region, which are considered as the most influenced region in terms of soft power, nevertheless, also have their own particular approaches toward Russia: more engagement, in the case of Kazakhstan; dependency, such as Tajikistan; balancing, for Uzbekistan; bandwagoning in the case of Kyrgyzstan; and selective engagement in the case of Turkmenistan. This, from our hypothesis can be explained by inter-elite ties, especially between President Putin and the heads of Central Asian states, which are characterized by weak institutions and a highly personalized way of making decisions. Therefore personal transnational or “Transimperial” communications serve as the main transmission mechanism of Moscow. For example, without the active support of Nazarbayev, the Eurasian Economic Union (like its predecessor, the Customs Union) would not have been created. In the same way, Putin’s support for Kyrgyz President Almazbek Atambayev and the latter’s dependence on Kremlin favor are the only and most important factor in Moscow’s resurgent influence in this country. Conversely, Russia's leverage is weaker in Uzbekistan and Turkmenistan, where no such personal relationship has developed. However even in these countries, Moscow retains a real ability to influence due to close ties between the relevant influential circles in the military and security spheres. Thus, it can be said, that the success of the soft power exerted by major powers in authoritarian states as Central Asian, primarily depends on the inter –elite ties between the states as well as on the decisions of their leadership and domestic actors which primarily prefer to bandwagon the stronger state for

gaining certain benefits (in the case of CA states Russian's support of the existing regime). Because, If we recall how Uzbekistan until 2005 showed more balanced behavior toward Russia ( GUUAM, the agreement with NATO regarding their military presence in the region), after brutal crackdown on opposition groups and the American administration's critiques of the Uzbek government for human right abuses, the leadership thought that aligning with Russia would be less of a threat. Consistently, we can observe how political decisions of weak states are influenced by their internal dynamics and their leadership's preferences that can change their foreign policy, so that "the yesterday's foe might become tomorrow's friend".

## **Conclusion**

There were presented by us two assumptions:

1. If nuclear armed great powers compete against the same type of powers to expand or sustain their sphere of influence over a populated region, they use soft power as a major expansive instrument while military power remains a tool to defend themselves and back up their foreign policies.
2. If the weak state with authoritarian regime, has close inter-elite ties with great power with a certain level (primarily in order to gain certain benefits), then the exerted soft power will be effective enough and the state will bandwagon to Great power. Conversely, if such relation does not exist, then in such states great power may not find a favorable environment in which to trigger soft power and influence the external orientation there.

Since neoclassical realism develops theories that includes both systemic and unit level factors in its analysis of foreign policy, it has been chosen as the guiding theoretical line of the work. Following the assumption of Kenneth Waltz (1978), the restricting practical scope of military power considerably affects the rise of soft power. An all-out war between great powers can turn out to be catastrophic not only for the sides that are directly involved but also for the entire world. Particularly, the destructive threat of nuclear power, which, as he wrote, pushed great powers into "absolute impotence" in their conflicts with each other, has necessitated the development of non-military means in great politics. Therefore, great powers hesitate to resort to military power in the resolution of their problems. We state, that for Russia in order to sustain its sphere of influence, it is necessary to apply soft power strategy, because it is relatively cheap and anti-western direction justifies itself in the region, where conservatism and traditionalism are more than welcomed .

However, neoclassical realism, along with other branches of realism, have paid little attention to the policies of the conflicting great powers to reach out to the domestic actors that are in between their conflict. Although neoclassical realists have acknowledged the importance of the intervening

power of domestic non-state actors in the formulation of foreign policy, they have not thoroughly analyzed the policies of great powers to interact with these domestic actors in target states and seek to make use of them. Our paper serves as an attempt to fill in this gap. It argues that the success of soft power in authoritarian states has primarily depends on inter-elite relations with targeted states. If such relation occurs, such states will be more influenced and conversely if not, then definite state will resort to balancing strategy. In addition, our analysis showed that formation of well-grounded narratives play important and decisive role that might change the attitude toward of states. However, again the leadership preferences constitutes the bigger factor here regarding acceptance of rejection of such narratives. Thus, instead of focusing on public opinion that shape the effectiveness of soft power, we offer that for such authoritarian states as Central Asian, the leadership attitude plays much more decisive role. Especially, taking into consideration that leading elite also control the flow of Russian propaganda through televisions.

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## **Gender in international relations education: case of KIMEP University**

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The sphere of international relations in broad sense, and diplomatic service, in particular, historically was a realm dominated by men, except for a number of limited samples of women in power. Moreover, these women did not get professional training in any sphere and relied mostly on their natural skills in diplomacy and intellectual potential, and were heavily backed by men interested in the success of male designed politics. The XX century revolutionized the sphere of international relations in terms of giving women legal access to get into politics as heads of states and ambassadors. Women got into other spheres closely related to international relations as theoreticians and practitioners of all kinds (scholars, instructors, interpreters, experts, etc.). Professional education and training in international relations related spheres became one of the key preconditions for employment and successful career pursuit for females. But despite the visible openness of various professional occupations in the international relations sphere for females, there is a wide gap between men and women in practice, even in the democratic countries. Kazakhstan is one of the countries that declared adherence to gender equality in all spheres, but the number of women in diplomatic service is lower than those of men, and women have poor chances to make careers in international relations sphere, except for academia. Out of about 200 ambassadors representing Kazakhstan in international arena, only three are women. Although, there are women in other agencies and offices of the Ministry of Foreign Affairs, their role and positions are insignificant. The reasons for that fall within the broad realm of historical explanation. From civilizational and cultural perspectives, the Kazakhstani society is traditional, male dominated, with only family spheres and some neglected by men spheres of occupation are left for women (education, nursing, cooking, and services). The soviet modernization partially empowered women, liberating them from religious/clan and family restrictions, to fill the spots in labor as well. The contribution of women in the state and society related activities - economics, family building, education, culture and even military - is out of question. But despite visible successes of women in various spheres, their role in public sphere, politics as a case, remained under male regulations and control. Thus, main cultural barriers on the way of women engagement in sphere of international relations in Kazakhstan can be summed as: patriarchal mentality, gender biased stereotypes, priority given to traditional gender roles for women and need to reconcile work and family life, narrow corridor for equal opportunities in harsh competition with men and career making schemes, vertical segregation.

Women had to engage in tricky patriarchic deals with men and employ their natural skills to gain some positions in society. The general statistics on women in administrative offices in the post-1991 Kazakhstan proves that they are underrepresented, especially when it concerns international relations sphere. But, maybe, it is society, at large, not ready to accept women as diplomats? The modernization reforms launched by the Kazakhstani leadership since 1991 put the women active involvement in political spheres and that was included an integral part of agenda programs of *Path to Europe*, *Mangilik El* and *Ruhani Jangury*. Gender equality principle of equality is embedded in the constitution and other legal acts. Republic of Kazakhstan signed most of the gender related international covenants.

However, the sphere of international relations for women in Kazakhstan is open in non-governmental organizations, training, academia, economics (as experts on global and regional politics), interpreting. Some women without special training in international relations, accompany their husbands working as diplomats and help in their professional duties, take care of large diplomatic households, receptions and entertaining guests. Women matter a lot in these capacities as international bridge builders, for diplomacy, they employ and exploit their natural female skills of social communication, psychology, management and diplomacy. But in most cases, their work remains unremunerated, while wives combine the duties of family maintenance and diplomatic services as well. Women help a lot in families of diplomats to adjust work-life balance.

But it should be noted, that women visibility in the public spheres success, especially in international relations, is largely ignored. Few success stories of women in international relations in the post-soviet Kazakhstan, are noteworthy, moreover, if to take into consideration that their careers began in the –pre-1991 times, and they got into the high offices from positions of komsomol or communist party functionaries- Aqmarak Arystanbekova, Madina Zhmbursynova, Dariga Nazarbayeva (daughter of the first President of the Republic of Kazakhstan- N. Nazarbayev), or belong to influential families – Zhanar Aitzhanova. While mass media in Kazakhstan mainly highlights traditional roles of women as mothers and wives, even toqals (second wives or others in order) rather than orient females to become professionals in decisions making sphere, especially in areas of foreign affairs.

Although, number of females in educational institutions training in international relations (diplomacy and foreign policy studies, regional studies, foreign languages/interpreting exceed the number of males. What are their employment opportunities after graduation? Is there gender bias in employment in international relations sphere? Are there any special courses in educational programs that discuss the problems of gender related issues in the history of international relations, conflict studies global/regional politics? What are expectations of females and their parents from international

relations studies? Do females demonstrate higher academic performance in studies, practical activities during internship and other forms of professional practice? Do instructor in international relations classes or others discuss that the diplomacy is only for males, it is tailor-made professions and there are certain professional identities that female would never match? What does the KIMEP University experience in international relations training tell about gender related aspects of education and employment? Are there any stereotypes on women in politics and international relations that still predominate in perception of female vision of the need to study diligently and pursue careers? What fields of professional activities are open for women along the direct diplomatic sphere (diplomats and their wives)? What qualities females should develop in job employment perspectives and pursuit of professional careers? In theory, females can work as parliamentarians, bureaucrats and party activists, but it should be well qualitatively case studied.

The research on gender issues especially in diplomacy has been questioned since women started to challenge the patriarchal rule in politics. Since this research is divided into three aspects of women in diplomacy, starting with education, then employment and ending with career, it would be necessary to have this pattern in the literature review section. First part would be dedicated to the education, namely gender issues in the studies of International Relations, one of the problems faced during the search of the scholarly articles, is that international community sees International Relations program not as a core for the Diplomatic service, but mostly like a bridge to becoming a political scientist, this is when it is important to notice that in Kazakhstan situation expectedly different, but it is yet to be discovered in this research, what is the perception of International Relations program among Kazakhstani students. Considering that in this research it also would be investigated whether the subjects taught in the International Relations program cover the gender issues and feminism, the same was done by the Kiran Phull, Gokhan Cifikli and Guctav Maibauer in their analysis of female exclusion in International Relations curriculum of London School of Economics. Results of their research showed that out of 11,199 articles that are present in the curriculum, only 20,8% have at least one female author, and 14,2% are female only authors. Another interesting point that authors find is that IR subfields articles have different trends on author`s gender, like Security and Regional Studies has the lowest level of female authors, while International Organizations and International Law is more gender diverse, International Political Economy and IR theory fail to be diverse in the undergraduate curriculum, but much inclusive in the higher level of study (Phull et al., 2018). Compared to the authors of the first source, these authors saw the situation in the education field from another point, they explored the gender gap in education in underrepresentation of female professors in the field of political science and international relations, their findings showed that only 26% of the 13,000 professors of political science are women (Maliniak et al., 2008). Important trends that the authors mentioned was that, firstly,

women tend to choose unusual methods, topics for their research, which makes them seem to be frivolous, in contrast with male researchers, secondly women researchers consider themselves as constructivists, while men tend to be realists. Authors explained interrelations between the second trend and gender inequality, they corresponded with a feminist and international relations scholar, who share their idea, she mentioned that while realism and liberalism hold “social contract” of obligation, while constructivism is more intersubjective. These ideas can be projected as male having free choices, while females being obligated (Sjoberg, 2007). Turning to the education system, curriculum and basically necessity of studying International Relations in Kazakhstan in order to become a diplomat is the fundamentals of “education” part of the research. In Ph.D candidate Aliya Kussainova’s article about “education and training of Diplomatic Personnel in Kazakhstan” she barely mentions about programs of International Relations taught in regular higher educational institutions, she describes the learning process of the Institute of Diplomacy in Kazakhstan and highlights the quality of practical trainings in this institution. According to the author, practical skills are very important in order to become a diplomat, whether other institutions, except the Institute of Diplomacy, is another question to be raised in this research. Due to the lack of resources interrelating education, international relations and gender inequality, it is hard to make any preliminary theories on whether education is somehow related to the low enrollment of women in the Diplomatic corps of Kazakhstan.

The paper would be based on assessment of the **statistical data** of KIMEP University on females’ admission, their academic performance, employment in short- and long-term perspectives, analysis of interviews of female students from different cohorts both undergraduates and graduates, instructors who would agree to share their vision of international relations as education platform for professional occupation in that or other spheres. Another important topic for analysis would be critical overview of the courses topics content on presence of gender issues covered.

It is quite problematic to rely on one theory in analysis of gender issues, especially in sphere of education. Gender issues have been marginalized in theories of international relations for many reasons. Most of theories are gender neutral or blind, or put the gender issues within the concept of power relations. The most reasonable at this stage of research, to employ as theoretical frameworks and starting point for analysis of gender related problems in professional realm of international relations fundamental principles of realism.

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# **A shift conventional to electronic cigarettes: the effectiveness of visual advertising campaigns among Kazakhstani consumers**

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## **Abstract:**

The use of electronic cigarettes experiences an increasing rate of consumption in the last several years. At the same time, the consumption of conventional cigarettes is gradually decreasing, as the smokers prefer to substitute conventional cigarettes with an electronic alternative. This study evaluates the reasons why ENDS (electronic nicotine delivery system) displace conventional cigarettes on the market. The research is conducted in the context of Kazakhstan, a post-Soviet country with more than 30% of smoking population. In general, it is suggested that a growing popularity of ENDS is explained by relatively lenient legal regulations and perceived smaller negative influence on health from e-cigarettes.

## **Introduction:**

Tobacco consumption is considered to be an important aetiological factor, which causes over 10 million annual smoking related diseases (Kandel, Griesler & Hu, 2015). Despite the fact that there is a scientific basis that defines smoking as a potential trigger for several types of cancer and around 20 other health-related threats and diseases, the popularity of smoking shows an increasing rate (Notley, et al., 2019). In general, the main negative impact from the consumption of tobacco is associated with the intake of high amount of nicotine, a chemical that is produced by the plants and is utilized in the production of tobacco (Silagy et al., 2004). The chemical is responsible for causing addiction and the gradual deterioration of several body organs in the case of long-term persistent consumption (Kandel et al., 2015). International statistics reveal that the largest amount of smokers is found among the representatives of Post-Soviet country residents. In Kazakhstan, the amount of smokers exceeds 30% of population including youth, adults and older population (Euromonitor International, 2018).

Previously, the negative externality from tobacco and thus nicotine consumption was spread only on cigarettes consumers. However, the beginning of the XXI century was accompanied by the introduction of the new tobacco smoking devices, including IQOS, JUUL, GLO or nicotine-based essential oil smoking apparatus also known as vape (Stroup & Branstetter, 2018). Despite the fact that the consumption of electronic cigarettes (in the cases of iqos and glo) and oil cartridges (in the case of vape and juul) via the above-mentioned electronic devices is considered to be relatively less harmful for health in comparison to regular cigarettes, these products contain nicotine as one of the main

constituent (Zhu et al., 2013). At the same time, as electronic cigarettes are relatively new to the market of nicotine-based products, there is limited investigation into the potential harm to the health of its consumers. There is also limited empirical evidence of its relative safety when compared to conventional cigarettes.

Meanwhile, the devices for electronic cigarettes are becoming increasingly popular (Padon, Lochbuehler, Maloney, & Cappella, 2018). The electronic nicotine delivery systems (ENDS) were first established in 2007 and by the year 2014, the annual net profit from e-cigarettes sales accounted for more than 2 billion USD in the US alone (Collins, Glasser, Abudayyeh, & Pearson, 2019). At the same time, electronic smoking devices have become the second most advertised good in journals and magazines, which creates an additional interest to the product among new consumers (Collins, et al., 2019). At present, it is unclear whether an increasing popularity of ENDS will prompt the past smokers to quit the habit or attract new potential customers and thus increase the ranks of smokers. In other words, from one side, switching to ENDS can be perceived as ‘tobacco-harm reduction strategy’ (Dave, Dench, Grossman & Kenke, 2019). At the same time, a massive wave of advertisement initiated after a widespread popularity of e-cigarettes in 2015 attracted non-smokers to start smoking habit (Dave, et al., 2019). As a result, the potential impact of ENDS advertisement has become the matter of scrupulous scientific discourse (Garrison, O'Malley, Gueorguieva, & Krishnan-Sarin, 2018).

A widespread use of tobacco among Post-Soviet residents makes this an interesting case for investigation. At present, in Kazakhstan, more than 30% of all smokers prefer electronic cigarettes to conventional ones (Euromonitor International, 2018). It is logical to assume that the majority of present day e-cigarettes smokers used to smoke conventional cigarettes. While there is a vast amount of theoretical research investigating the advertising tools utilized by the companies, producing e-cigarettes, there is limited inquiry into the reasons for the shift in consumer preferences among past smokers. This research aims to investigate the reasons why the past smokers of conventional cigarettes choose to shift their preference towards e-cigarettes.

### **Literature review:**

The amount of smokers who prefer electronic smoking devices is increasing every year. Figure 1 shows that the demand for the product follows an increasing scale and reached the amount of almost 45 million of consumers.

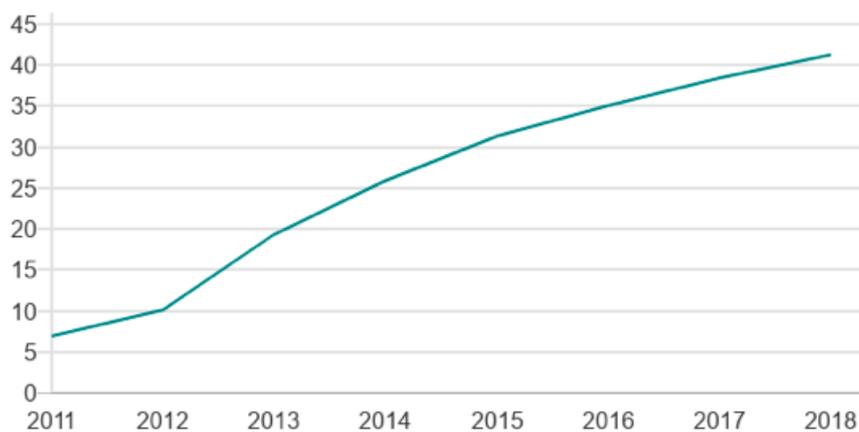


Figure 1. The tentative amount of e-smoking device users in the world. Adapted from: Euromonitor International.

At the same time, the number of smokers who prefer conventional cigarettes is decreasing. Based on the evaluations from WHO, the figures for conventional cigarettes smokers decreased by around 40 million in the last few years (WHO report on tobacco consumption, 2019). Some scholars believe that decreased interest in conventional cigarettes is determined by the fact that smokers prefer to substitute them with an electronic alternative. For example, some studies suggest that ENDS can be considered as an effective supplementary tool in the process of smoking cessation (Brown, et al., 2014). This is because ENDS is found to relieve the feeling of stress and anxiety among the smokers of conventional smokers by providing an access to smaller doses of nicotine (Zhuang, Sharon, Sun, & Zhu, 2016). The study by Hajek (et al., 2019) suggested that the consumption of electronic cigarettes helps to facilitate the process of quitting smoking among long-term smokers. The use of ENDS as a part of nicotine replacement therapy among the smokers is usually justified by the fact that e-cigarettes consumption causes less harm to customers' health.

The producers and distributors of ENDS suggest that the damage from their products is limited as a result of a relatively smaller share of other chemicals such as resins, carbon monoxide, ammonia etc (Dinakar & O'Connor, 2016). At the same time, an e-cigarette smoker is not subjected to the harm from tar, another chemical substance responsible for the largest impact on health (Dave, et al., 2019). However, the presence of nicotine in the composition implies that electronic cigarettes are as capable of causing addiction as regular ones (Camenga, Gutierrez, Cavallo, & Krishnan-Sarin, 2018). Most importantly, as the product is relatively new to the market, there is no scientific evaluation on the long-term impact of e-cigarette consumption (Jo, Golden, Noar, & Ribis, 2018). However, despite the fact that there is limited evidence and evaluation of its effect on health and addictiveness of consumers, the product continues to attract new customers. As it is shown in the Figure 2, in 2014 the estimated proportion of ENDS users in Kazakhstan accounted for just under 10%. At present, the figures are expected to be even larger following an increasing popularity and demand for ENDS worldwide.



Figure 2. An estimated proportion of e-cigarettes consumers, by country. Adapted from: Euromonitor International.

It is evident that the primary interest in ENDS is facilitated via advertising tools. This assumption is supported by a number of scientific inquiries into the subject. For instance, the study by Tuchman (2019) among US consumers revealed that advertising campaigns of e-cigarettes reduce the demand for conventional cigarettes. A similar study (Dave, et al., 2019) of almost 60 thousand individuals revealed that ENDS advertisement on TV and magazines can cause past cigarettes consumers to quit smoking and start ENDS consumption. This means that despite the fact that conventional cigarettes remain being one of the most popular products in the global market, the demand for the product is directly influenced by the ENDS advertisement. This can also be explained by the fact that some consumers perceive conventional and electronic cigarettes to be substitute goods. Therefore, based on the principles of macroeconomic relationships, an increased demand for one product is expected to lead to an inevitable decrease in the popularity of an alternative (Rosato, 2016).

At the same time, the sales of conventional cigarettes are constantly exposed to numerous state anti-tobacco campaigns aimed at increasing the health condition of the public and limiting the negative externalities from smoking (Zhan, Zhang, Philip, & Xie). Historical analysis reveals that the sudden rise of smoking consumption was followed by the wave of aggressive and native advertising campaigns initiated by tobacco companies in the end of XX and the beginning of XXI century (O’Hegarty et al., 2006). At present, due to the gradual increase of negative externalities that stem from persistent and even non-regular smoking, governments are beginning to initiate anti-smoking campaigns (O’Doherty et al., 2019). Their degree, coverage and strategies vary based on the amount of investment and general attitude of the government towards the problem of excess tobacco consumption (ibid). For example,

some states try to manipulate the consumption via gradual increase of the prices for cigarettes as a measure for cutting down the amount of amateur smokers among the youth (Chauhan & Sharma, 2017). Other governments employ the method of the so-called psychological distress, which is based on putting the warning labels and/or pictures on tobacco products (Corcoran, 2013). The latter is generally believed to have more positive impact as a preventative anti-tobacco measure as it helps to manipulate the consciousness of a smoker (Corcoran, 2013).

Increasing popularity of e-smoking devices stems is directly related to the anti-tobacco initiatives implemented in Kazakhstan and the differences in the attitude towards electronic and conventional cigarettes from the side of the government. As a member of World Health Organization (WHO), Kazakhstan is entitled to the number of international regulations with regards to the sales of conventional cigarettes. In 2016, WHO passed an international Framework Convention on Tobacco Control (FCTC) with the set of obligatory and suggested regulations on warning labels. At present, there is a legal requirement to post both a picture and text warning on nicotine containing products which would cover at least  $\frac{1}{4}$  of the packaging. However, the legislation is currently aimed at only conventional cigarettes, whereas ENDS packaging usually lacks similar warning labels.

So, WHO membership entitles the government to initiate several anti-tobacco campaigns. However, as prescribed by the WHO, the legislative norms and regulations only apply to conventional cigarettes. As a result, in the absence of legal restrictions, the producers of electronic cigarettes have more freedom in terms of advertisement, the choice of packaging and even the places of distribution.

### **Methodology:**

The research is designed in order to extend the present-day scientific inquiry into the specifics of ENDS consumption. In particular, it is aimed to find the factors and reasons that prompt the consumers of conventional cigarettes to shift their preference towards ENDS. The research is contextualized around Kazakhstan, a post-Soviet Central Asian economy with almost one third of a smoking population. In order to evaluate the reasons why smokers prefer e-cigarettes over conventional cigarettes, the research is going to rely on a qualitative method of data collection. In particular, the research is based on the set of interviews from the present day consumers of ENDS.

The interviewees were asked a set of questions in order to evaluate the degree to which electronic cigarettes influence the demand for conventional cigarettes. The interviews are collected online in order to maximize the amount of respondents and thus increase the sample size for the research. In order to do so, the interview questions are published on 'surveymonkey.com' online platform. Any additional questions that arise in the process of gathering data are collected via social networks or phone calls. The sample size for the research includes 32 individuals from various economic, social backgrounds and from different age groups.

So, the past scientific papers and research including scientific publications, books and experiments comprise the secondary data for the research. The primary data for the research is therefore based on the interviews collected from Kazakhstani residents. In order to draw the conclusions for the investigation, the research aims to answer the following questions:

1. Did the present day consumers of ENDS smoke conventional cigarettes in the past or did they use to be non-smokers?
2. Did the present day consumers of ENDS start smoking electronic cigarettes in order to give up smoking in the long run? Can the consumption of ENDS be considered as an effective replacement therapy?
3. Why did the past consumers of conventional cigarettes shift their preference to ENDS? What is the role of the advertisement in the changed preferences of ENDS consumers?

The main limitations of the research are related to the potential size of the sample for the research. Additionally, due to the legal restrictions on the movement and meetings, the data is collected on online platforms.

#### **Results:**

There are several major findings related to Kazakhstani residents on the topic. First, it was found that only 75% of the respondents participating in the survey used to smoke conventional cigarettes prior to the consumption of ENDS. This means that 25% of respondents used to be non-smokers. This finding contradicts the idea of ENDS consumption as a measure of replacement therapy. In other words, a certain percentage of respondents started to be exposed to nicotine only after the consumption of ENDS. At the same time, the majority of ENDS consumers (79%) started smoking in order to give up conventional cigarettes. However, 31% of all respondents and 42% of ENDS consumers continue to smoke conventional cigarettes in hand with electronic cigarettes. As a result, it can be argued that the effectiveness of ENDS as a measure aimed at assisting smoking cessation is rather questionable.

As for the reasons for the shifted preference among the past consumers of conventional cigarettes, most respondents highlight smaller exposure to nicotine, convenience and the long-term planning to give up smoking. So, first, the consumers of electronic cigarettes perceive ENDS as being less harmful compared to conventional cigarettes. This perception of health benefit was found to stem from the absence of legal restriction on its consumption and the advertisement from the side of ENDS producers and distributors. In other words, the ENDS consumers perceive limited legal restrictions on the distribution of ENDS as the sign of its limited harm to the health of e-cigarettes users.

At the same time, the distributors highlight that ENDS cause less stress to the human body when compared to conventional cigarettes. For example, the distributors from Philip Morris responsible for the sales of IQOS ENDS state that their product produces 95% less harmful chemicals when compared

to regular cigarettes. At the same time, the official advertisement on Kazakhstani website is mainly built around the comparison between conventional and electronic cigarettes by highlighting the benefits of the latter. “Unlike cigarettes, IQOS can not burn the people around you”; “as opposed to cigarettes, IQOS helps you to open up the real flavor of tobacco” (kz.iqos.com). In this sense, the producers are trying to attract the present day smokers by providing the benefits of a substitute good.

Another reason why past smokers prefer ENDS is related to its convenience. As mentioned before, the legal restrictions that apply to cigarettes do not apply to ENDS. Therefore, it is possible to smoke electronic cigarettes in public places like airports, cafes and even public transport.

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# **In search of resources for Ukrainian identity maintenance in the post-1991 Kazakhstan: role of ethno-cultural centers (Almaty and Almatinskaya oblast)**

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**Abstract:** Ukrainians in the post -1991 Kazakhstan found themselves at the crossroads of identity transformation: from the soviet Ukrainian to the post-soviet Kazakhstani. What is the present day understanding of ethnic identity by Ukrainians and what is their hierarchy of identities, especially of those living in the most ethnically and culturally diverse megapolis of Kazakhstan - Almaty? What is the role the Ukrainian ethno-cultural centers, set up under the Assembly of the People of Kazakhstan? They were designed to become a reservoir for maintenance of Ukrainian ethno-cultural identity and generating incentive for the Kazakhstani civic identity building. To what extent they have been effective to represent collective Ukrainian identity in the dominant Kazakh socio-cultural environment framed as Kazakhstani civic nation construction project under the leadership of state and its bodies? The paper is based on the analysis of statistical data, official information on the activities of Ukrainian ethno-cultural centers in Almaty and across the country in general, interviews with the officials working the centers, and representatives of Ukrainian community residing in the city and its neighborhood. Theoretical-methodological basis for the data analysis are theories of identity construction of E. Erickson and J. Phinney, for assessment of the role of ethno-cultural centers was employed the concept of R. Brubaker on groupism (identity outside the ethnic group).

**Key words:** Ukrainian identity, ethnic core, Kazakhstan, ethno-cultural center, cultural identity, civic identity construction

## **Main body**

### ***Introduction and objective:***

History of Ukrainians in Kazakhstan, brief overview of cultural life and activities of Ukrainian groups in Almaty city;

### ***State-of the-art literature review;***

Kazakhstan - Ukraine: Roads and Crossroads, 1917-2008, ISBN 9965-32-818-8

### ***Research methodology and data collection tool;***

Combination of both qualitative and quantities research; interviews with Ukrainian Cultural Centers' members, Ukrainian representatives of culture, science and religion.

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### **Literature Review**

While approaching such specific topic as Ukrainian ethno-cultural identity in Kazakhstan, applying the correct path is one of the most fundamental bases for any substantial academic work. In my case, it would be better to move from a more general overview of academic sources concerned with the matters of ethnicity and nationality as characteristics of a group and individual, and then, after turning to more specific case of Ukrainian identity, going even narrower and trying to find literature background available on Ukrainian identity in diaspora. I started with a simple question on the nature of ethnic identity – and found out that Otto von Mering has asked the same in his article named “The Question of Ethnic Identity”. Concerned with the ways ethnicity is portrayed by both individual and the group, he is explaining two ways the national identity is reproduced – through “socialization and individuation” (Mering, 1972). When talking about ethno-cultural identity, this approach will help me to explore new dimensions in understanding the formation of Ukrainian identity, and that was the main reason I’ve become interested in this article. For instance, author talks about differences between ways of acquiring national identity – while individuation would suggest that person will be searching for his ancestry, comparing himself with others and looking within, socialization implies that people will be claiming one group as theirs, openly expressing their sense of belonging and presenting themselves to others with the help of symbols and gestures. Not only the person interested in his ethnicity might end up joining the life of his ethno-cultural community, but also the practices of that community might help him to secure that identity, - therefore, both approaches will allow me to better understand the issue. More specific focus on the social importance of the ethnicity was examined by John Sharp and Emile Boonzaier in their study of symbolic interactionism among native South-African tribe of Nama. Not only have they described in detail the particular ritual of expressing one’s own belonging to the group, but they also mentioned the specifics of that recognition in the context of being the minority group in the country (Sharp & Boonzaier, 1994). Questions that authors raise about the matter of those rituals are quite useful and can be applied to Ukrainian case for the sake of a more productive conclusion – for instance, whether there is a questioning nature in social practices of Ukrainians in Kazakhstan. However, I do not believe that conclusions will be identical, due to the fact that different groups will be studied. In contrast with the mainstream academia’s view on the ethnicity as purely “socially constructed” phenomenon, Gary R. Johnson recognizes that that construct is actually based on kinship

ties and genetic “blueprints” that help us recognize members of the same ethnic group as “our own”. He also questions the importance of belief in the structure of the ethnos, while proving that it alone cannot serve as a reliable source of group identity (Johnson, 1997). Those statements, although not completely, but still correspond to my views on the matter and will serve their purpose in explaining how Ukrainians with different ancestry still remain united under their ethno-cultural identity in Kazakhstan. Notion of culture being constructed and recreated with time is also mentioned by the one Joane Nagel in the article “Constructing Ethnicity: Creating and Recreating Ethnic Identity and Culture”. I am particularly interested in this author’s explanation of skin color perception by African-Americans as one of the ways of establishing ethnic boundaries (Nagel, 1994) – in my opinion, similar patterns of recognition may exist in the Ukrainian cultural community in Kazakhstan, with Caucasian race’ features quite possibly being one of the defining characteristics of potential member of Ukrainian cultural community. Because some members of Ukrainian cultural community in Kazakhstan are second-generation Ukrainians, I was particularly motivated to find some material on similar topic in the academia. Although not directly addressing my issue, Ali Akbar Mahdi has approached the matter of second-generation immigrants from Iran in United States. The conclusion he came to, and the one that caught my attention in particular, was that, first of all, those second-generation Iranians were showing no resistance to assimilating culture, and second – their perception of one’s ethnic identity was strongly shaped by the American perspective on Iran in general, simultaneously being very idealistic in nature (Mahdi, 1998). I believe that similar patterns could be found in Ukrainian cultural community as well, because preliminary interviews have discovered a very positive attitude of respondents towards Kazakhstani identity as unifying for all ethnicities of Kazakhstan. Another pattern that those preliminary results have shown is that majority of Ukrainian Cultural center’s active members are senior citizens of Almaty city, and, suspecting causality in that relation, I searched for similar findings. A quite old but still relevant piece on ethnic identity and elderly people’s social engagement was explored by Linda E. Cool. Her conclusions, although derived from two completely different focus groups, proved to be universal and, therefore, applicable to my case as well – because of the fact that senior citizens in industrial society feel deprived of power and social roles, they turn to their ethnic identity as the source of strength and justification of renewed social activity (Cool, 1981). Seemingly simple, this causation turned to be fundamentally important in explaining particular characteristic of Ukrainian cultural community in Almaty region. “Ethnicity without groups”, written by Rogers Brubaker in 2004, was another piece of theoretical literature recommended for my research. However, after reading that piece, I was convinced that it had a very little significance in my case. Beginning with familiar standpoint of nations and cultures being reproduced through particular actions and rituals, he came to quite radical conclusion that those entities “do not exist in the world” per say

(Brubaker, 2004), but instead are imposed by power figures on the population. Noticing the distinctive characteristics of Critical Theory in its most radical form, I decided that this article would serve as a very poor basis for my research – instead of concrete definitions and solid arguments, author tends to prefer vague statements and pseudo philosophical conclusions. However, the question of methodology is still very important, so I turned to other sources for guidance. And I must say, “The Multigroup Ethnic Identity Measure: A New Scale for Use With Diverse Groups” by Jean S. Phinney has once again proved the statement that old researches can still remain accurate and relative in the XXI century. Article is clear and wholesome, describing both the examples of measurement one researcher would like to apply while studying ethno-cultural identity, and preliminary results of those measurement’s application on case study of ethnic minorities in USA (Phinney, 1992). Some of recommendations expressed by the author have already been applied to questionnaires and interviews with representatives of Ukrainian cultural Centers in Almaty. However, the most valuable contribution to the methodological background for me was the book “Measuring Identity: A Guide for Social Scientists”, issued by Cambridge University Press in 2009. Not only does this useful guide contains general recommendations on what approaches researches should take while studying the ethnic identity, but also specific advices on how to measure independent and dependent variable, how to properly structure surveys and interviews in order to gather as much useful information as possible (Abdelal, 2009). Truly, the importance of this massive research can’t be overestimated by social sciences’ academia.

However, when it comes to the topic of Ukrainian national identity specifically, number of credible resources available on the matter somehow decreases. Yet, it is possible to find decent fundamental pieces, like the monograph of National Institute of Strategic Research titled “Ukrainian Identity: The Phenomenon and Fundamentals of Formation” (Stepiko, 2011). In this massive research, author is clarifying a number of important points –theoretical differences and approaches in defining “nation”; process of fundamental values’ defining throughout history of Ukraine; who were the main carriers of that values and how those values have been transformed by internal and external factors, both social and political; and finally, issues of national identity crisis in contemporary world. This book is believed to be crucial in understanding the phenomenon of Ukrainian identity specifically, its distinctiveness and defining characteristics. Without confident understanding of this issue, no future research is possible – and it makes this comprehensive monograph incredibly important for any potential discoveries on the matter. Also, additional information on characteristic acquired by Ukrainian identity due to political changes will be gathered from minor articles, such as “Balancing National Uncertainty and Foreign Orientation: Identity Building and the Role of Political Parties in Post-Orange Ukraine” (Melnykovska, Schweickert & Kostiuchenko, 2011). In this article, authors clarify effect of political parties on formation of Ukrainian national identity after the period of Orange

revolution in 2004. They analyze in what way foreign orientation influences the creation of political parties as consolidating factors for different groups of people within the nation, and how do those parties shape internal values of Ukrainian nation. This article will help me to trace more recent changes in Ukrainian identity – taking into account the fact that Orange revolution was one of the most significant events in domestic politics of Ukraine in XXI century. As for factual data concerning Ukrainian people’s opinion on directions of foreign policy and economic transformation, an article by Stephen Shulman comes to my attention, titled “National Identity and Public Support for Political and Economic Reform in Ukraine”. In this research, author uses quantitative data analysis to prove that Ukrainian national identity complex promotes more liberal and open values in economy and politics (Shulman, 2005). This for sure will make a great contribution in future comparative analysis of Ukrainian identities at home and abroad – whether those values are still true for the Kazakhstani Ukrainians, for instance. As for more recent pieces, there is one particular research that tries to capture the Ukrainian identity by measuring the people’s relation to the particular issues of Ukrainian politics – that is, fear of Russian military invasion, language preference and actual practices (Onuch, & Hale, 2018). It provides concrete conclusions and results, and methodology used is of special interest to this research in particular. I must also outline the importance of Yaroslav Hrytsak’s chapter “Rethinking Ukraine” in showing historical development of different worldviews of Ukrainian population – from the most radical *nationalisme integrale* to the more liberal views of Ukrainian conservative thinkers (Hrytsak, 2015). It is always important to take one step back and notice the roots of the modern sociological phenomenon in the past.

Pool of available academic sources is getting even smaller as we approach the specific matters of Ukrainian Diaspora. “Ukrainian Diaspora: Socio-Geographical Research”, a monograph by Andriy Zubik, is one of the few most relevant researches done on the matter. This book is exploring diaspora perspective overall – author is elaborating on the issue of Ukrainians abroad; clarifies the definition of “diaspora” and theorizes on the influence of historical, geographical and socio-economic factors on the formation of its identity, defining ethno-geography’s leading role in the process. Zubik in details explores the historical periodization of Ukrainian migration flows, mentioning dates, destination of population’s migration and causes for changes in location (in particular, Kazakhstan is mentioned as destination for emigration detached from any specific time period and positioned as one of the countries with larges Ukrainian diaspora on the world-scale). One of main issues explored by the monograph is the issue of language – what amount of emigrants still recognize their mother tongue to be Ukrainian, for instance (Zubik, 2019). That issue is of particular interest for this research article as well, for language is traditionally claimed to be one of the defining factors of person’s identity and for sure should be explored in my case. Another point worth mentioning is author’s concern with diaspora

politics of Ukraine towards its fellow compatriots abroad. Overall, it can be said with confidence and clarity, that this study is one of the most up-to-date and comprehensive sources of information on Ukrainian diaspora abroad. It is very hard to find any substantial data when it comes to the matter of connection between diaspora and “mainland” Ukraine, - however, Volodymyr Yevtukh provides interesting explanations on those connections, emphasizing importance of memory, awareness and identity as cornerstones of interaction between two parts of Ukrainian nation (Yevtukh, 2018). I believe that my own research will be able to test that hypothesis and prove its relevance. Because of the high specificity of the topic, it is quite problematic to find literature on exact topic. However, by deconstructing the issue of Ukrainian Diaspora in Kazakhstan into Ukrainian Diaspora and ethno-cultural communities in Kazakhstan, we are able to find more sources. Later, logical bridges between the two will emerge. Understanding the way ethno-cultural centers are organized in Kazakhstan is very important prior to conducting further research, and article actually does a great job in describing the issue. Comparing situation in Uzbekistan and Kazakhstan, authors explain the structural differences in ethno-cultural organizations, underlying centralized nature of the Assembly of the People of Kazakhstan and stressing the importance of hierarchy and power (Alexandrov, Jorayev & Tutumlu (former Rustemova), 2018). Noticing the context of the ethno-cultural communities’ life is very important for the objectivity of the research, therefore I highly value the job done by authors and will pay attention to details mentioned in his article. During the process of preliminary interviews, I’ve noticed that many members of Ukrainian ethno-cultural community here, in Almaty, have substantial academic background and were assigned to work here during Soviet times. Believing that this might be another defining characteristic of Ukrainian ethno-cultural community in Kazakhstan, I tried to search for some articles related to labor migration – and very soon find out the piece by Mikola Yavorsky, in which he provides the four-phase structure of Ukrainian migration to Poland. I recognize the difference between the cases, and yet notice some similarities – like, for instance, establishing contacts with your local Ukrainian community and later orientation towards integration into the hosting society (Yavorsky, n.d.), - staying relevant for Kazakhstani case as well. However, when it comes to the Ukrainian ethno-cultural community in Kazakhstan, I have not been able to identify any wholesome research in open access that would be addressing the matter directly. The book “Kazakhstan - Ukraine: Roads and Crossroads” (2009), published by Ukrainian Embassy in Kazakhstan, contains only individual stories of Ukrainians who lived and worked in Kazakhstan (Aïdarbekov, Selivon & Shepel, 2009), but doesn’t address the question of Ukrainian ethno-cultural community and centers, their everyday activities as a whole – so, topic still carries a great potential in terms of research. Apart from purely scientific sources, I was also interested in gathering non-scholarly information on Ukrainians in Kazakhstan – that’s why I addressed a variety of minor sources, from purely statistical data on the

matter of percentage of ethnic Ukrainian population in Kazakhstan ("Ethnic composition of Kazakhstan 2018", 2020) to news articles containing information in activities of Ukrainian Cultural Centers in the Republic, their heads and contact information (Этнокультурные центры Алматы: украинцы, 2019). I was also interested in gathering articles reflecting the overall mood of Ukrainians coming to Kazakhstan, their opinions on local culture and social practices (Украинцы в Казахстане о таксистах, казахском языке и местной валюте, 2018).

In the end, it is important to summarize all gathered information. I've been able to access the fundamental pieces on the matter of ethno-cultural identity, its main components and ways in which it is manifested by members of that particular community. I've gathered information on methodology and recommendations for fieldwork on this topic, which will unavoidably help me avoid some basic mistakes in process of conducting this research. Also, I have found necessary academic and statistical data on Ukrainian ethno-cultural community overall and collected contacts of the heads of Ukrainian Cultural Centers from available online resources. By this time, I am confident that my academic background and amount of credible sources covered will be able to provide solid factual background for my research on Ukrainian Ethno-cultural identity in Republic of Kazakhstan.

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# **“Inclusion of Economics Textbooks in Curriculum: The case of an Almaty School”**

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## **Abstract**

The present study seeks to evaluate a new series of economics textbooks currently developed for use in the Kazakhstan secondary school - International College of Continuing Education (ICCE), Almaty. Data was collected using hard copy questionnaire filled by 122 respondent and analyzed using econometrics tools and Stata program. Two hypothesis were tested and several multiple regressions were developed based on the data collected. Regressions were tested for multicollinearity, heteroscedasticity and normality assumptions showing that there are no severe problems and received conclusions are statistically significant and can be trusted. New approach for textbooks evaluation process were developed and tested in practice.

Key words: teaching economics; textbooks evaluation; secondary school; econometrics; multiple regression;

## **Introduction and objective**

The question of whether and how to use textbooks in teaching economics subjects has long been debated among professionals in this field. However, even with the development of new technologies that allow for higher quality materials, demand for textbooks continues to grow, and the publishing industry responds with new series and textbooks each year (*Garinger 2002*).

However, many teachers argue that despite the important role of textbooks, they are not always professionally designed and do not always fit the curriculum and closely correspond with the aims of the teaching program and the needs of the students (*Minh, 2007*). According to *Garinger (2002)*, *Cunningsworth, Sheldon and Skierso* have advocated a variety of approaches to textbook selection, but in practice, the process is often based on personal preference and may be affected by factors unrelated to pedagogy. Thus, textbooks should be carefully evaluated and selected before being used for a learning program.

The present study seeks to evaluate a new series of economics textbooks currently developed for use in the Kazakhstan secondary school - International College of Continuing Education (ICCE)<sup>131</sup>, Almaty. Training manuals have been developed on the basis of special courses on the basics of economics literacy by Kozlov V.N. and Kovaleva I.V. They are: the manual for grades 7-9: "Fundamentals of Economics"; the manual for grades 10-11: "Modern economy and marketing" and the workbook for grades 7-11.

In this paper by means of using student questionnaires co-authors of this books examine the efficiency of implementing manuals into the educational process of the ICCE. The aim is to analyze advantages and disadvantages of the books, understand the attitude of students towards them and pupils' expectations from implementation of manuals. As well, to obtain recommendations from students on improving manuals and determine the level of motivation of pupils to study economics in the ICCE. Based on this information will be determined the desirability of inclusion of the textbooks in the curriculum of ICCE.

### **State-of the-art literature review**

Development and production of textbooks is a continuous process, which needs continuous and rigorous research and development. Textbook analysis is not an easy task as it includes several processes (*Skopinskaja, 2003*). *Saville-Troike (1982)* suggests a combination of quantitative and qualitative methods of content analysis. Although *Fraenkel (1996)* and *Saville-Troike (1982)* suggest that content analysis in textbooks is objective and reliable, *Sheldon (1988)* argues that "it is clear that textbook assessment is fundamentally a subjective, rule-of-thumb activity, and that no neat formula, grid or system will ever provide a definite yardstick". In his view, establishing uniform evaluative criteria might help to make textbook analysis more objective than it is at present (*Skopinskaja, 2003, p. 43*).

Textbook evaluation checklists are often used as the criteria of qualitative analysis. According to *Radic-Bojznic, and Topalov (2016)*, the literature on textbook analysis offers a number of checklists as evaluation criteria suggested by authors such as "*Joiner (1974), Cunningsworth (1984), Sheldon (1988), Skierso (1991), Byram (1994), Brown (2001) and Kilickaya (2004)*". They agree that evaluation checklists should have criteria referring to the physical characteristics of textbooks such as layout, logistical and organizational features, as well as those referring to methodology, aims, approaches to teaching and cultural information (*Radic-Bojznic, B., Topalov, J., 2016*).

Sheldon's evaluation guide (1988, p. 242) contains seventeen categories of suggested textbook criteria. Each category contains two to seven questions that represent "some points around which our thoughts can crystallize" (Sheldon, 1998, p. 242). While *Skierso's checklist* (1991, p. 444–452) is certainly the longest and the most encompassing one covered by the literature on textbook analysis. The updated version is eight pages long and certain sections and topics for consideration are used and modified by other authors. *Skierso* (1991) identifies a number of elements that need to be determined before the analysis is carried out, which contain necessary information on students, teachers and the educational institutions. She supports *Cunningworth's* (1995) idea of an impressionistic evaluation or first-glance evaluation as a survey that could help eliminate inappropriate or unsuitable textbooks from the selection process (*Skierso*, 1991, p. 435).

On the other hand, *Brown* (2001, p. 142) suggests an evaluation form that can be used as a practical set of criteria for either choosing a textbook for a course or evaluating the textbook that is currently used. *Brown* (2001) checklist is regarded as the most comprehensive one by many as it includes both general and specific criteria of textbook analysis. While *Sheldon* (1988, p. 237) states that the selection of a textbook indicates a significant "administrative and educational decision in which there is considerable professional, financial and even political investment" and therefore it is of vital importance to establish the criteria of textbook analysis. However, according to *Cunningsworth* (1995, p. 7), one should make sure that "careful selection is made, and that the materials selected closely reflect (the needs of the learners and) the aims, methods, and values of the teaching program".

### **Research methodology and data collection tool**

For the purpose of textbook analysis, an in-depth evaluation of the manual for grades 7-9: "Fundamentals of Economics"; and a manual for grades 10-11: "Modern economy and marketing" and their accompanying workbook was conducted using the questionnaire provided by *Garinger* (2002) and *Dubovitskaya* (2002), with some modifications.

So that, the major method employed in this project about advisability of manuals implementation in learning process includes pupil's questionnaire (quantitative method). Pupils observation enabled to collect information about student's motivation to study economics literacy course and their opinions about the quality as well as feasibility of implementation of the new manuals in the learning process of the ICCE.

In designing the observation the author was interested in being able to quantify the data as well as to receive diversified opinions and comments from the pupils. Therefore, not only multiple questions were used in the questionnaire, there were also open-ended questions to allow for as much information to be provided as possible.

To study the feasibility of the manuals implementation in ICCE was decided to use empirical data analysis. To this end, students of various classes, ages, sexes, ethnicities and levels of academic achievement were observed. The survey was written in Russian and included four parts. The first part carefully allowed for anonymity gathered background information about the respondents. The second part consisted of twenty multiple-choice questions from method of diagnostics of the orientation of educational motivation provided by *Dubovitskaya (2002)*. The third part consisted of fifteen multiple-choice questions asking the respondents to evaluate the textbooks and express their attitude towards them. The fourth part consisted of three open-ended questions asking pupils about recommendations for further manuals development; their opinion about the possible influence of books on the educational process; the reasons why they consider the economy to be important or, on the contrary, an unnecessary subject for studying at school.

The respondents of the survey were 122 Almaty students taking economic literacy course in International College of Continuous Education (ICCE). Data collection took place during March and October 2018 at the ICCE during ten regular time classes. The information collection lasted approximately 20 minutes during class time. Hard-copy questionnaire technique was used to collect the information.

The observation was conducted by the teacher of the economics literacy course and the co-author of teaching manuals Kozlov V.N. To prepare students for the upcoming observation, they were given a task to familiarize themselves with the short versions of the manuals a week before the survey was conducted.

The results of observation made during March 2018 were evaluated using the basic set of Excel functions, as well as using the multiple regression method. The statistical significance of the equations obtained were checked using the determination coefficient and the Fisher criterion. In October 2018, the second survey was conducted. It allowed to collect more detailed information about the respondents who participated in the first survey. 56 previously participated students were interviewed. As a result, was received additional background information of the respondents: how many children in the respondent's family (Children), whether the respondent went to kindergarten (Kindergarten), how many years his mother (Mother) and father (Father) studied, what is his leading hand (Left), how many hours a day a respondent sleeps (Sleep), what month he or she was born (Month), at what age the respondent went to school (Firstgrade), how many hours a week he or she has sport activities (Sport), whether the respondent studies other than English foreign languages (Languages). Below are presented analysis of the information obtained using the Stata program.

As a result of the study, confirmation or refutation of two hypotheses is expected. Firstly, it is assumed that the motivation for studying the economy is most affected by student's performance.

Secondly, it is assumed that the gender of respondents will have the greatest impact on the evaluation of books by students. Finally, it is also expected to receive an informed response to the main question of the study on the advisability of introducing the new manuals in the ICCE curriculum.

### **Data analysis with critical thinking and discussion**

Let's start from analysis of the results of the first part of the questionnaire, it gathered background information about the respondents. The average age of the respondents is 15 years (29 pupils). The minimum age is 12 years (2 students). The maximum age is 18 years (1 respondent). Among the respondents, the female sex is 54.1% (66 girls), the male gender was 45.9% (56 boys), respectively. The greater part of respondents are representatives of Kazakh ethnicity - 43.3% (53 pupils). The second largest ethnicity group is Russian - 23.8% (29 students). The remaining 32.9% of the respondents are Korean (6.6%); Jewish (3.3%); Ukrainian, Turkish, Tatar (2.5%), and other ethnicities. Therefore, the Kazakh and Russian ethnicities were chosen to form the regression analysis equation. Respondents GPA: consists of average GPA students - 45.1% (55 pupils), above the average - 21.3% (26 respondents), below the average - 11.5% (14 children), honor - 14.8% (18 people) and poor GPA - only 7.4% (pupils) of all students.

Analysis of the second part of the questionnaire. It describe the kind and level of respondents' motivation. According to the data, the respondents are dominated by internal motivation to study the subject, 87.7% of students (107 schoolchildren) study the subject of their own volition, the remaining 12.3% (15 pupils) have an external motivation. Since motivation has predominantly an internal orientation, it has been evaluated in terms of degrees: low, high and medium. As a result, it was revealed that a low level of external motivation is observed only in 2 cases, the average in 48 cases and high in 72 cases, which is 59% of the total number of respondents. These data allow to conclude that the level of internal motivation of respondents is extremely high. As a result of the calculations, the multiple regression equation was obtained:  $Y = 12.1375 + 0.04109X_1 + 1.6941X_2 - 1.5069X_3 + 2.1928X_4$ . Interpretation: increase in age -  $X_1$  per 1 unit leads to an increase in  $Y$  (motivation) by an average of 0.0411 units. Affiliation of the respondent to the female sex -  $X_2$  leads to an increase in  $Y$  (motivation) by an average of 1.694 units. Belonging to Kazakh ethnicity -  $X_3$  leads to a decrease in  $Y$  (motivation) on average by 1.507 units. GPA above the average -  $X_4$  leads to an increase in  $Y$  (motivation) on average by 2.193 units. By the maximum coefficient  $\beta_4 = 0.288$  conclude that the greatest influence on the result of  $Y$  (motivation) is provided by the factor  $X_4$  (the performance is above the average). The statistical significance of the equation was verified by means of the determination coefficient and the Fisher criterion. It was found that 23.51% of the total variability of  $Y$  (motivation) is explained in the study situation by the change in  $X_j$  factors (age, sex, ethnicity, academic achievement). It is also

established that the parameters of the model are statistically significant (tested for multicollinearity, heteroscedasticity and normality).

Analysis of the third part - students' attitudes toward textbooks. In general, students like the manuals, but there is still something to work on. Firstly, authors may complete homework in such a way that they cause more interest. Secondly, the workbook is not as significant as it was supposed to be, it might be worth removing it, or make several copies just for library use. Thirdly, it would be nice to change the cover and design of the manuals so that more pupils would like them. It can be concluded that 66.5% of respondents (81 students) excellently graded new manuals, 23.8% of respondents (29 children) gave good grades, and only 9.8 % of students (12 people) gave bad grades. The multiple regression equation is:  $Y = 4.1915 + 0.3632X_1 + 0.3885X_2 - 1.0052X_3 + 0.9455X_4$ . Meaning that an increase in age -  $X_1$  per 1 unit. leads to an increase in  $Y$  (manuals grade) by an average of 0.389 points. An affiliation of a respondent with the female sex -  $X_2$  leads to an increase in  $Y$  (manuals grade) by an average of 0.389 points. Belonging to Kazakh ethnicity -  $X_3$  reduces  $Y$  (manuals grade) of an average of 1.005 points. GPA above the average -  $X_4$  leads to an increase in  $Y$  (manuals grade) on average by 0.946 points. For maximum coefficient  $\beta_4 = 0.288$  conclude that the greatest influence on the result  $Y$  (manuals grade) provides  $X_1$  factor (age). It was found that in the investigated situation, 8.05% of the total variability of  $Y$  (manuals grade) is explained by the change in the factors  $X_j$  (age, gender, ethnicity, academic achievement). It was also established that the parameters of the model are statistically significant (tested for multicollinearity, heteroscedasticity and normality).

Fourth part. most of the recommendations relate not to the content of the manuals, but to their general availability and presentability. Students are ready to use the manuals and will be happy about their implementation. From all this follows that the expediency of using these manuals in the process of teaching economic literacy course in the ICCE is significant. It is possible to draw a conclusion about the favorable effect of manuals on teaching economy course after their introduction.

### **Summary, conclusion and recommendations**

Thanks to a large number of respondents of different ages, gender, ethnicities and levels of academic achievement (background), it was possible to obtain statistically significant results concerning the put forward hypotheses.

Firstly, the hypothesis that the students' motivation to study the economy is more influenced by the level of the academic performance is confirmed (first observation, March 2018). This factor has the most significant impact on student motivation, explaining 23.51% of the total variability of student motivation. However, according to the second research conducted in October 2018, another more important and significant factor was found – it is Languages (the more foreign languages pupil learns, the higher is his or her motivation to learn economics).

Secondly, the hypothesis that the sex of respondent will most affect the outcome of the assessment of books was incorrect. The age of the respondents has the greatest impact on the assessment of books by respondents (8.05%), while sex is only the third most influential factor (according to the first research – March 2018). However, according to the second observation, only two factors might influence student's assessment of the books. They are sport activities and being left-handed. Both factors have negative influence on books grading. So that left-handed student who love sport activities grades books worsen than all other students. But it should be taken into account, that second regression failed F-test, so that it is impossible to say that this information is true. It is better to make other researches, collect more information.

The statistical significance of the equations (March 2018) obtained was verified using the determination coefficient and the Fisher criterion, as a result of which it was established that the parameters of both regression models are statistically significant, and therefore they can be trusted. However, only first equation from the second observation (October 2018) may be trusted.

Thirdly, was received answer to the main question of the study on the advisability of introducing manuals in the process of teaching students the course of economics literacy in the ICCE. According to the received data 90% of the students of the ICCE have an internal motivation for studying the economy and their assessment of the benefits on average turned out to be very high. So that it can be concluded that the introduction of the manuals will have a beneficial effect on the process of teaching students. Therefore, the introduction of manuals in any form (electronic or printed) is appropriate for the administration of the college. In addition, it should be noted that the students themselves believe that these manuals will have a beneficial effect on their motivation and level of knowledge, and this also speaks in favor of the use of the manuals in the process of teaching the students to the ICCE.

Somewhat unexpected was the fact that belonging to the Kazakh ethnicity in both equations of regression models negatively affected the general motivation of students and the average assessment of manuals by them (March 2018). Perhaps this can be explained by ethnic or national characteristics, but for this conclusion it is necessary to conduct a separate, more detailed study of this factor in the future. However, according to second observation (October 2018) – ethnic residuals are insignificant and cannot be trusted.

Decisions related to textbook selection will affect teachers, students, and the overall classroom dynamic. It is probably one of the most important decisions facing educators. The use of an evaluation procedure or questionnaire can lead to a more systematic and thorough examination of potential textbooks and to enhanced outcomes for learners, instructors, and administrators. The described evaluation methodology may be used or adapted as a tool to help educators who are deciding which textbooks may be most appropriate for their classes.

So that the current project helps to identify the problems. This contribution would be of practical value to textbook authors and teachers of economics in Kazakhstan. Besides, the project focuses on a teaching context that is largely unheard of and under-represented in the economics field. Therefore, for the scholars outside Kazakhstan, the project report would be a rich source of information for their use and reference.

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# **The determinants of Dutch disease: the case of Kazakhstan**

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## **Background/Research problem**

Economic advancement of Kazakhstan has been increasing for many years due to commodity boom in the beginning of new millennium. But, social indicators and the quality of different institutions demonstrate not the sweetest results. Actually, they had made more limited progress. The economic advancement model, that was triggered by the commodity boom without improvement is unlikely to be sustainable. Despite the short-term rise, the countries with rich natural resources tend to have lower economic progress in future (Akhmetov, 2017).

After oil price downfall in 2014 we understood that the government needs efficient structural economic reforms and regulations in order to keep the country afloat during such crises. The current diversification strategy is fruitless and the economy is dependable on the resource sectors and this makes unbalanced economic development. A number of studies have already suggested that commodity rich economies perform worse economically in the future. Basically, the economy develops into less diversified due to structural changes in the economy caused by natural resources boom and more volatile to commodity price's fluctuations (Égert, 2012).

In the end of 2000s, the economists provided a term "Dutch disease" to define the decrease of the manufacturing sector in the Netherlands after the finding of a large natural gas field (The Economist, 2014). The Dutch disease means a causal relationship between the rise in the natural resource sectors and a fall in non-commodity sectors. Researchers suggested that the consequences of the phenomenon are more dangerous for developing nations than for developed ones due to the technological difference (Cherif, 2013). This disease stays as a vital problem for emerging economies, like Kazakhstan, and it is important to reduce its negative outcome.

## **Objective / Rationale / Significance**

There have been numerous studies that investigated the role of government played in preventing and softening the Dutch disease effect. This study will contribute to the discussion on Dutch disease by analyzing its effects in economy of Kazakhstan and how has government regulated the country's economic policies in combatting with the disease.

The research question of this thesis are:

1. What are the determinants of Dutch disease and how to recognize its presence?
2. What are symptoms of Dutch disease in Kazakhstan and how it occurred?
3. What policy instruments should be applied by Kazakh government and what impact can they have on the presence or absence of Dutch disease impacts?

It is important to reveal which Dutch disease effects did and did not appear by empirically examination of previous data, especially when oil prices gradually increased. After, there will be illustrated the economy of Kazakhstan throughout history. Will be assessed which policy instruments were applied, and what impact they had on the presence or absence of Dutch disease impacts. It will be achieved by taking into consideration the country's fiscal policy and its effects on macroeconomic stability. Further, will be reviewed the analysis of the Central Bank of Kazakhstan's monetary policy with respect to the exchange rate and how it handled with inflationary pressures. Furthermore, this study will take into account the macroeconomic measures that were taken. Especially, it will review Kazakhstan's position on trade policy and its consequence on production and export growth in natural resources sectors. By evaluating the efficiency of Kazakhstan's policy instruments this study can present a lesson for similar countries in managing with Dutch disease.

## **Literature review**

A large number of existing studies in the broader literature have already examined the economic term which is called the "Dutch disease". According to Kutan & Wyzan (2005) this disease happens in resource-exporting countries and wrote that oil-exporting nations have periodically faced with significant raises in their national wealth due to high oil prices, resource discoveries, or technological advancement in the energy sector. This leads to shift of an

economy's productive resources from the tradable goods industry to the non-tradable goods industry.

To put it another way, Overseas Development Institute (2006), emphasized that the Dutch disease is the impact that natural resource revenues has in exposing existing policy failure, like in economic investment, regulatory reform and trade. For instance, governments make in supporting regulatory reform, skills development, business support, public investment physical infrastructure in order to diversify the country's economy that will impact the way in which the Dutch disease effects on the country's economy. In this article the authors presented 2 features: 1). The impact of resource 'booms' (via government investment and industrial policy) on tradable vs non-tradable industries. 2). The differential effect of this impact depending on whether government policy is skewed towards industries that are "close to" or "far from" the natural resource market. As a result of the first variable, the authors conclude that the revenue from "boom" sector can boost the economic advancement, but this development depends on whether the increasing-returns-to-scale production is in the tradeable or the non-tradeable sectors. When the increasing-returns-to-scale sector is non-tradeable, a resource boom can indeed attract more goods into that sector by establishing more demand, which leads to an effective growth. However, if the increasing-returns-to-scale sector is in tradeable side, a resource boom can create negative impact on economic growth (Overseas Development Institute, 2006). As a consequence of the second variable there are two scenarios. The first is if the natural resource sector is "closely" linked with other tradable sectors in the economy, like engineering and construction services, then resources are more likely to be exhausted out of these sectors. In this 'close to market' scenario, with respect to the 'expenditure effect' the tradable sectors will temporary get advantages from raised domestic demand, however, after domestic inflationary impacts and exchange rate appreciation will decrease country's competitiveness in international arena (Overseas Development Institute, 2006). In contrast, from raised domestic demand driven by the natural resource sector, the 'close to market' non-tradable sectors can profit in both the short and medium term with less competitive drawback. The second scenario is if economic policy that advocates separation of natural resource industry from other industries then, it is likely to have less risk of resource "exhausting" or decreasing international competitiveness of the tradable sector (Overseas Development Institute, 2006).

Oomes & Kalcheva (2007), argue that there are several essential signs that Dutch disease has: exchange rate overvaluation, slow development of the manufacturing sector, rapid growth in the services sector, high average wages, and unemployment.

In the same vein Bresser-Pereira (2008) wrote that the Dutch disease is the main determining factor of the tendency to exchange rate overvaluation, as well as a severe market failure resulting from the existence of Ricardian rents that weakens the country's economy endlessly. Moreover, the Dutch disease refers to big market collapse originating in the existence or discovery of cheap and abundant natural resources that keep the currency of a nation overvalued for an unknown period of time. Consequently, the production of tradable goods using technology in the state-of-the-art become fruitless. Also, the author mentioned that disease can be neutralized by achieving two measures. The first one is a tax or contribution on the sale of the goods that give growth to it will do the job. This tax should correspond to the percent difference between the current equilibrium exchange rate provided by its lower cost and the industrial equilibrium exchange rate that initiates the way for tradable industries in state-of-the-art technology (Bresser-Pereira, 2008). Secondly, the neutralization can be achieved by the establishment of an international fund with the resources that came from this tax. The fund will restrain that the inflow of the tax resources re-appreciates the exchange rate. However, according to Bresser-Pereira (2008), it is difficult to accomplish this task due to several reasons. One of them, the government must deal with exporter's refusal of the commodities giving increase to the Dutch disease, as the aim of the tax is to keep it more stable so that their inflow to the country will not put pressure on the exchange rate. Frankel (2010) adds that there are two exchange rate policies to handle the Dutch Disease. The first one is fixed exchange rate. It is a nominal anchor for monetary policy that assists the central bank in accomplishing low-inflation credibility and it decreases the costs of international trade. The second one is floating exchange rate. When a "commodity boom" happens, the currency mostly appreciates, this softens what would otherwise be a danger of excessive capital inflows and overheating of the economy. Also, during a commodity bust this gives automatic accommodation for commodity producers.

The tax can only be marginal and should only be addressed on gains resulting from the depreciation achieved by the tax, or, preferably, by temporary measures of inflow control in order to sustain profitability. When the tax is established and supply curve of the product in local currency shifts upwards, it provokes depreciation (Bresser-Pereira (2008). Basically, the amount

the exporter pays as taxes is returned as a raise in his profit in local currency. Believing that depreciation is achieved by a temporary imposition of inflow controls, the export tax will assure that the exchange rate maintains at the industrial equilibrium level. There is an issue of transition expenses from one position to another, that must be taken into consideration and balanced by the government. In contrast, if the nation has a considerable market share in the international arena in supplying goods, the tax may lead to growing its international price. This impact can be insignificant however, the raise in international prices due to the tax promotes the Dutch disease that the tax aims to stabilize (Bresser-Pereira (2008)).

Secondly, the tax encounters macroeconomic issues, as it indicates a temporary growth in inflation. But, the prices will be later neutralized if there won't be any formal or informal indexation of economy. Tempering the economy during transformation can decrease this temporary growth in inflation, however will not remove it (Bresser-Pereira (2008)).

Thirdly, depreciation of the local currency generates the issue of reduced salary. While currency is overrated due to the Dutch disease, salaries are unnaturally at high level, as the Ricardian rent directly profit individuals. So, appreciating the domestic currency means, the decline in the actual returns on labor and on real property rents. Moreover, this indicates a relative reduction in the profits of the producers of non-tradable goods and services, such as hotel and, building industry (Bresser-Pereira (2008)). Put it another way, whereas the Dutch disease was in action, the country's Ricardian rents were caught by commodity producers and were promoting all regional buyers, who were purchasing tradable goods at decreased prices.

Similarly, Akhmetov (2017) says that this disease indicates the interrelationship between the raise in natural resource industries (oil and gas) and a drop in non-commodity industries (manufacturing and agriculture). Moreover, the author gives two considerable effects that generate a drop in non-commodity industries. The first is that capital and labor sources tend to shift from these industries to the booming ones and the second that the foreign currency inflow from commodity exports leads to appreciation of domestic currency, making the non-commodity industries less price competitive on the export market.

Additionally, Auty (2001) wrote that country's dropped labor-intensive phase of competitive industrialization implies, when nation is dependent on dominant product exports for a long time. Therefore, income inequality stays high and skills grow slowly. Basically,

manufacturing develops slowly, as concerns of “Dutch Disease” and unemployment stimulate trade policy stoppage. But still, governments resist to create the necessary political reforms to strengthen an economic growth. However, they borrow from abroad or put even more pressure on the dominant sector. Consequently, economic growth collapses, as stimulus in farming and mining are depressed and competitiveness decreases. Social and natural capital are drained and the economy becomes vulnerable to shocks.

Guriev et al. (2009) defined the negative effect of the Dutch disease to human capital accumulation due to underinvestment in education. Furthermore, it was advised that the manufacturing industries will not advance when resource prices reduce due to a gap with foreign countries due to prolonged period of underinvestment. So, it will lead to loss in technological advantage during the boom period.

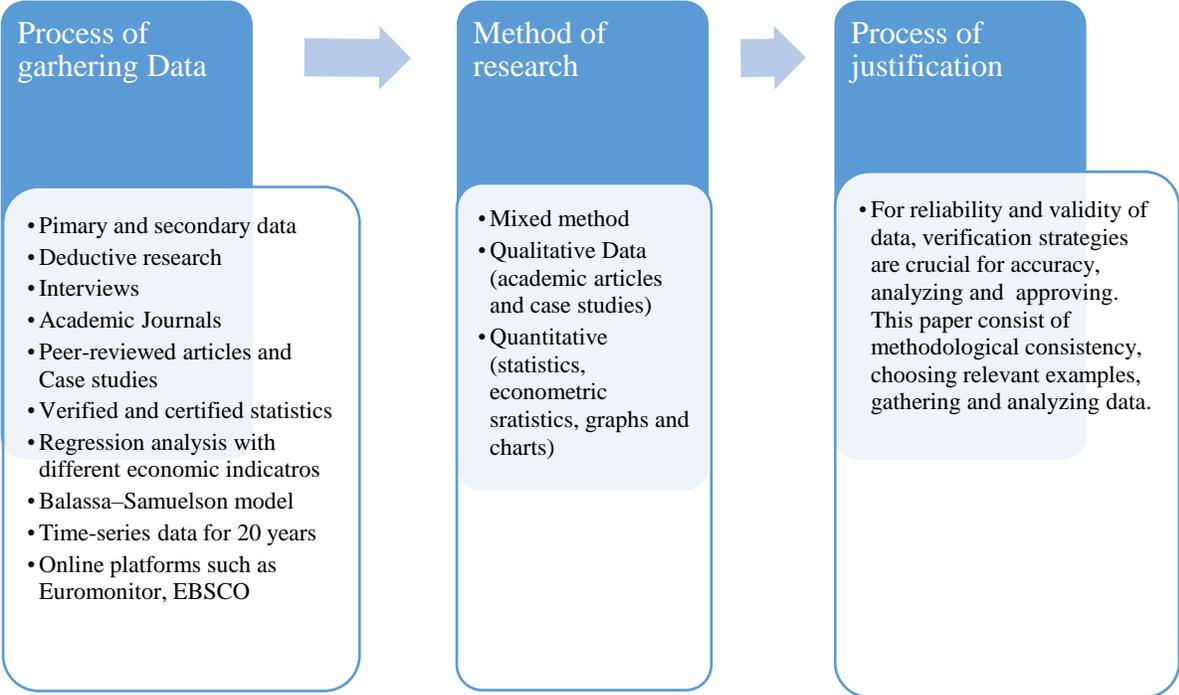
Most early studies as well as current work focus on the Dutch disease problem in Kazakhstan and several methods are reported in the literature to address this issue. For instance, Kutan & Wyzan (2005) studied the existence of the Dutch disease in Kazakhstan by applying the extended Balassa-Samuelson model to involve the effects of oil prices. The research showed that the raise of oil prices leads to real exchange rate appreciation. Therefore, it was revealed that the Kazakh economy is vulnerable to the Dutch disease in near future. Current studies provide two different approaches in decreasing the impacts of the Dutch disease in the short run in Kazakhstan. They are by slowing the appreciation of the domestic currency appreciation and by diversifying the negatively affected non-commodity industries (Akhmetov, 2017).

## **Theoretical Framework**

This research paper will cover several theoretical models such as growth model, the Dutch disease theory which basically explains macroeconomic consequences of a resource boom and the real exchange rate theory. In the theoretical framework of this study, the investigator takes into account traded and nontraded goods, the prices of traded goods that equal the exchange rate, and the prices of nontraded goods that depend on the exchange rate, salaries, and monetary policy. This corresponds to an economy with nominal wages that are exogenous, varying in real terms depending on price adjustment. The model considers the dynamics of profits in traded

goods (oil and gas) and nontraded goods as a result of the expansion of the booming mining sector, that corresponds to traded goods.

Data and Methodology



Annual data from 1993 until 2019 for Kazakhstan will be taken in this research. The following variables such as output of tradable industries, non-tradable industries and agricultural production will be examined. Data on outputs of extracting sector and oil price will be converted into natural logarithms. The better measure of currency appreciation or depreciation is required. Dolan (2014) suggested using the ratio of GDP per capita at market exchange rates over GDP per capita adjusted to purchasing power parity (PPP). Augmented Dickey-Fuller test will be applied in this research in order to check stationarity of time series variables

A VAR Model will be applied, where first equation y will be as currency appreciation. X are as oil prices, the output of tradable and non-tradable sector. The Granger causality test will be applied in order to test the directions of causality between Y and X.

$$y_t = b_{10} - b_{12}x_t + \gamma_{11}y_{t-1} + \gamma_{12}x_{t-1} + \epsilon_{yt}$$

$$x_{t=20} = b_{20} - b_{21}y_t + \gamma_{21}y_{t-1} + \gamma_{22}x_{t-1} + \varepsilon_{xt}$$

The error terms (structural shocks  $\varepsilon_{yt}$  and  $\varepsilon_{xt}$  are white noise innovations with standard deviations  $\sigma_y$  and  $\sigma_x$  and a zero covariance.

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# **Personal branding: an effective strategy for a career start**

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## **Abstract**

The purpose of the study was to explore the opinion and practice of Kazakhstani university students place on in developing an online personal brand with relation to securing a job interview. The high competition for a limited number of job positions together with the new trends in using social media and social networking sites demonstrated the importance of online personal brand as a key advantage compared to the somewhat outdated CV-Motivation letter approach.

**Keywords:** online personal branding, recruitment, university students

## **Introduction.**

Personal branding is an image that a person purposefully creates, and people have a specific image when it comes to this person. Building a personal brand is not an easy task. It takes time and patience. A brand is not created in a couple of days or months; people take years to do it. The creation of a personal brand is an investment that pays off and yield results. Therefore, it can be stated that a personal brand is an asset, thanks to which knowledge, skills and services increase in price and demand. Each person should be engaged in the development of the name without dependence from a field of activity (Pitko, 2015). Tom Peters developed the concept of a personal brand in 1997. The basic idea is that a person should have a desire to be perceived more than just a set of skills. Peters claimed that a person does not belong to any company for the rest of his life and that a person should not limit himself or become attached to one style.

Now companies understand the importance of managing through social networks. For this, companies spend much money to hire employees. Job search through traditional methods (newspapers) are outdated and provide fewer opportunities for applicants. Workers use sites such as LinkedIn to find employees (Wetsch, 2012). Employers are also actively using social networks to find employees, so it is essential to keep a profile correctly and not to spread unnecessary information. After all, any information can be found just by typing the name of a person in a search engine. Students should understand that being on a social network is already branding. They need to create the correct image from student years (Pitko, 2015).

## **Statement of the problem**

The research problem was that Kazakhstani university students face challenges to distinguish themselves on a very competitive market and to secure their first job. Using curriculum vitae students cannot reveal their professional potential because they rely on a passive way of self-presentation. Kazakhstan has a high level of youth unemployment, according to Syzdykbaev (2019), 3.6% of the total unemployment rate of the population, which is 4.8%. The second area is what students do not know about promotion tools. Furthermore, the third area is that students do not think about personal branding while studying; they waste their time on social networks. Statistics for 2019 shows that there is a problem with the employment of graduates. 78.5 thousand young people under the age of 29 are not employed. Also, 60% of university graduates do not work in their specialty. More than 60 universities have programs with employment rates below 50%. About 40% of graduates find work by the end of the first year of study; this will explain that they do not use the opportunities of social networks during their studies at the university (Syzdykbaev, 2019).

At universities, they are not trained in personal, professional branding. Personal branding is the marketing sector, which in the modern world, is a necessary tool for success. Numerous job seekers still do not understand the importance of personal branding in the contemporary world. They consider social networks a waste of time, especially some future experts in the field of science and medicine. Based on the problems as mentioned above, it can be concluded that the high unemployment rate among university graduates is because students do not develop personal branding during their university studies. Personal branding is more than just showing professional skills; it is also active in social networks, network development, participating in various discussions, updating CV. (McCabe, 2017)

## **Background and need**

There are three current realities, which justified the need for this research. First, despite the increase in the number of holders of higher education diploma, "the share of the unemployed with higher education and with secondary vocational education tends to increase (Abzhan, Amirbekuly&Yeshpanova, 2019, p. 34). Unemployed are mostly young people aged 25 to 29 years. Second, the university produces more students that the job market needs and could accommodate. The "expected graduation rate of students (universities and colleges) in the period from 2013-2018 was three times higher than the anticipated need for the workforce (including vacancies) (Alshanskaya, 2019, para 21). Third, there are global trends in employing social media for searching for, preselection, and disqualified job applicants.

## **Purpose of the study**

The purpose of the study was to explore the opinion and practice of Kazakhstani university students place on in developing an online personal brand with relation to securing a job interview in Kazakhstan. The Society for Human Resource Management (SHRM)(2016) indicated that employing social networks for recruiting in 2016 increased with 28%, reaching 84% compared to 2011 when 56% of the recruiters use social networks for recruitment. Thirty-six per cent of recruiters disqualified candidates due to information found on social networks. Differences in the extent of using social networks for hiring exist between developed and developing countries, depending on internet penetration and social media use. The "integration of SNS in the hiring process is more likely to occur in developed counties (Villeda & McCamey, 2019, p. 70).

The high competition for a limited number of job positions together with the new trends in using social media and social networking sites demonstrated the importance of online personal brand as a key advantage compared to the somewhat outdated CV-Motivation letter approach. The research set goal to shed light on the importance students held for the online personal brand for them to sharpen their competitive job edge. **The research asked two research questions**

*RQ1. What opinion do Kazakhstani university students hold for online branding as a means to increase their chances for a job preselection?*

*RQ2. What is Kazakhstan university students' online personal brand activity?*

## **Literature review.**

### ***2. Global trends in using social media in hiring***

Social networks are not only a tool for communication, but it is also a powerful recruiting tool, which, according to experts of leading recruitment agencies, will occupy a leading place by 2020. Nazarova and Chabanova(2018) stated that social networks enable the hiring process, making it easier, faster and cheaper. Villeda and McCamey (2018) claimed that social networks could help recruiters focus on a more global search and not be limited only to the local level. Social networks encourage 60% to reduce the time for hiring employees, and can significantly reduce the costs required for recruiting. Babcock (2010) found that HRs found 40 employees, 20% faster through social media (Babcock, 2010).

Glevitskaya (2017) claimed that 35% of specialists in the field of management and recruitment actively use social networks in their work. They also recognize the advantages of this tool; however, do not forget to emphasize their limited functionality. Another 50% of HR managers use social networks when standard search tools employees do not give results.

## **2.2. Branding**

The American Marketing Association characterizes the brand as a name, term, sign, a symbol or design, or a combination thereof, which is designed to identify a product or service from competitors. Branding was initially intended for products but eventually began to be used for personal purposes. (Backhaus, K., & Tikoo, S. 2004). "Brand identity is a collection of personality traits that apply to brands." (Geuens, et al. 2009). Geuens et al. (2009), describes brand dimensions such as sincerity, excitement, competence, sophistication, and endurance. According to Greenwood et al. (2016), branding and value are interconnected. Brands have a strong cultural, ideological and sociological impact, which form the dynamics of the development of society. With the development of the Internet, brands have become value-based social production. Branding is a strategy of creating brand value in the eyes of the audience. In today's world, branding embraces the broader, which encompasses the life of people. Branding is the most influential and most effective tool used not only by large companies and other organizations and individuals. (Gonne-Victoria et al., 2017)

### **2.3.1. Personal branding.**

A personal brand helps stand out among many similar products. A strong personal brand is a combination of reputation, attention and performance and trust. (Harris & Rae, 2011). Personal branding helps to increase social capital "as a means of flexible adaptation to changing labor markets." (as cited in Gehl, 2011).

Social capital is the use of opportunities, resources, and mutually beneficial cooperation through social networks. Social networks can affect social capital, both positively and negatively (Johnson, 2017). According to Thompson-Whiteside, Turnbull, and Howe-Walsh (2018), the process of creating personal branding encourages people to be active in self-promotion and to participate in various events to become visible in the market, reporting on unique virtues based on individual strengths and characters critics. Harris and Rae (2011) argued that the person's character, habits, features, such as honesty, sincerity, openness, all this breaks into a personal brand. When creating a personal brand, it is necessary to take into account the correspondence of the personal brand and career goals: their coordination is beneficial for career development. Creating a personal brand begins with defining values and principles. The acquisition of new skills during training, as well as their presentation on social networks, could help the graduate to find work and stand out among other applicants quickly. Professional positioning on social networks is a handy tool for communication, which can help in a future career.

### **2.3.2 Personal branding and social networks**

With the advent of Web 2.0, people need to manage their image on the Internet, because the fingerprint provides information about people's personal brand. (Labrecque, Markos& Milne, 2011). Social networks have changed the hiring and job search methods. Hiring through social networks is 30 per cent faster than traditional recruitment. Graduates with substantial social capital find jobs much quicker. People who communicate in connection with their career aspirations receive more substantial social support compared to those who do not communicate. According to Careerbuilder, 60% of employers use social networks to search and select job candidates. (Starcic, et al., 2017). Established professional relationships create valuable social capital. (Starcic, et al., 2017). McCabe (2017) provides advice on the proper use of social networks for job search. If students want to increase activity and rise to the top, then, of course, it is advisable to share knowledge or write their question, where experts will share their knowledge. To develop personal branding, a student or graduate must relate to their profile as an organization refers to the site. (McCabe, 2017).Sinha (2017), distinguished the professional use of social networks and individual. Professional use occurs when social networks use community creation for relations with a client, search for job seekers, for sales, for distribution of content, and any other use related to work.

LinkedIn is the largest professional job search platform, with over 350 million regular users. This platform connects job seekers with potential employers. A well-developed personal brand makes a candidate higher in the eyes of a recruiter. Just a CV is not enough to become a successful candidate for a position. At LinkedIn, the fullness of the profile affects job search efficiency and raises the profile 40 times higher when companies search the database. (LinkedIn.com, 2015, as sited in Mccabe, 2017)According to Zakharov (2018), only 10% of candidates use LinkedIn for job search. Nevertheless, the staff here are looking for more than 90% of HR managers, since the probability of finding qualified candidates here higher.

Moreover, more than 60% of employees - potential candidates - use social networks for job search. *The Society for Human Resource Management (SHRM, 2019)* stated that online message boards remain popular 69% of respondents prefer them, but modern methods are gaining momentum. 41% of young professionals surveyed have a job in social networks.

Appel (2014) stated that access to reliable information about jobseekers is not an easy task. Employers are increasingly using cybervetting. Cybervetting is a means by which various information about candidates can be collected by using unofficial web sources such as Facebook, Twitter, Instagram, blogs or e-commerce websites to make decisions (Appel, 2014). A concept such

as cybervetting is a commonly used hiring practice that uses unofficial sources to use personal information.

### **Methodology**

To explore online personal brand, the researcher implemented a *non-random sampling* to approach current Kazakhstani university students. The unit of analysis was a current university student in a university who was approached with a *snowballing sampling*. Snowball sampling is a method when new participants come through respondents for testing or research. This method is used when it is difficult to access objects with target characteristics. (Naderifar, et al. 2017). This method was chosen to increase the number of surveyed students. The data was collected via an emailed self-administered questionnaire. Survey research is defined as "the collection of information from a sample of individuals through their responses to questions" (Check & Schutt, 2012). The survey method has advantages and disadvantages. The main advantage is the ability to reach more people in a short period. It is also relatively easy to analyze the data. Surveys have disadvantages such as the unwillingness of respondents to provide information or providing inaccurate information; respondents can choose their answers without carefully reading and the questions. The researcher shared the link to the Google Form with the questionnaire with the forty friends and groups in which the researcher is a member of Telegram and WhatsApp and shared a link, and they shared with their friends. This research was conducted using the survey method.

### **Results**

One hundred and sixty-six students from 24 universities in Kazakhstan filled in the survey. The universities were KIMEP University, Suleiman Demirel University, Kazakh National University, Almaty University of Energy and Communications, Turan University, Satbayev University, Almaty University, Kazakhstan National Pedagogical University, Kazakh National Conservatory named after Kurmangazy, Kazakh National Medical University, Eurasian Technical University, Kazakhstan British Technical University, Kazakhstan Academy of Transport and Communications, Kazakhstan Medical University of Continuing Education, Kazakhstan University of International Relations and International Languages, Eurasian National University, Kazakh-Russian Medical University, University of Foreign Languages and Business Careers, Kazakh National Agrarian University, Astana IT University, Karaganda State University, Almaty Branch St. Petersburg State University, Pavlodar State University.

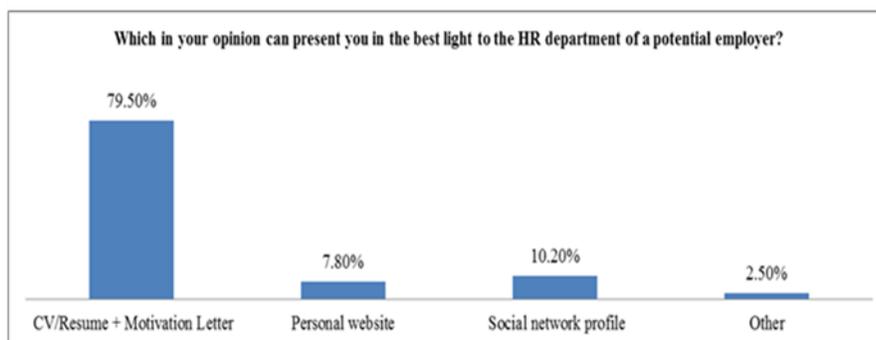
Out of all the respondents, 166 students, 142 study at the bachelor's degree, 21 study at the master's program and three surveyed PhD students. Of the respondent students, 54 are 1st year

students, 60 are 2nd year, 29 are in the 3rd year, 22 are the 4th year students, and 1 is the 5th year student. As the survey shows, only seven students spend less than 1 hour on social networks, 26 students spend 1-2 hours on the social networks, 64 students spend 3-4 hours on social networks, 50 respondent students spend 5 to 7 hours on social networks, from 7 to 10 hours on social networks spend 12 students and seven students spend more than 10 hours on average per day.

*RQ1. What opinion do Kazakhstani university students hold for online branding as a means to increase their chances for a job preselection?*

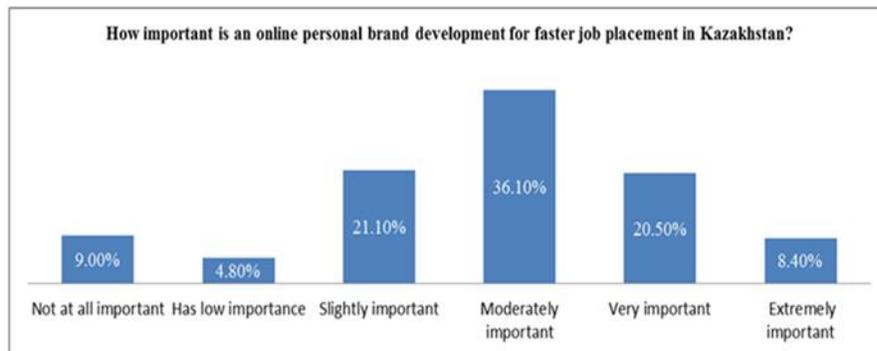
The concept of a personal brand in social networks is just beginning to develop in Kazakhstan, and this is primarily done by professionals, as the study shows, most students do not develop a personal brand in social networks. Most students, 79.5% of the surveyed students, are convinced that traditional methods as a CV and a motivation letter may reveal more positive qualities for the employer.

Figure 1. The most effective self-presentation method



Nevertheless, 41% of students develop a personal brand. Furthermore, as the study showed, most students still tended to assume that the development of a personal brand has an impact on faster employment in Kazakhstan. 20.5% of surveyed students have an opinion that the development of a personal brand is very important, 8.4% chose the answer is extremely important, 36.1% of students consider it moderately important, 21.1% are a little important, 4.8% think that a personal brand has a low impact and 9% chose that it does not matter at all.

Figure 2. Students' opinion on online personal branding.



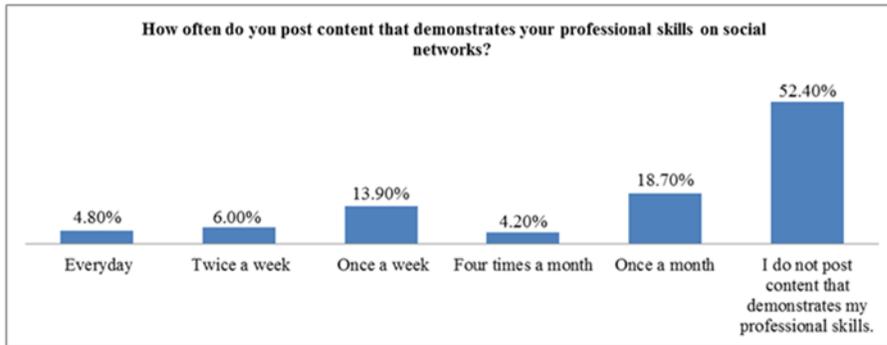
*RQ2. What is Kazakhstan university students' online personal brand activity?*

The social network activity of 46.4% of the respondent students was to publish photos; 39.2% students shot stories in social networks; 19.3% published videos, 12% write the text for posts and demonstrate professional skills, 2.4% students publish feedback on work, 42.4% students do not publish content demonstrating professional skills and 1.9% respondents chose another; 11.4% of students out of 166 respondents use different accounts for personal and professional use, 29.5% of students use one account for personal and professional use, and 59% of students out of 166 do not use social networks for professional purposes. From all the respondents, 60.8% of students develop their social network profiles, 24.1% personal blogs, and 14.5% individual sites and 0.6% do not build anything.

In this survey, a more significant number of students using Instagram as the most visited social network of 92.2% out of 166 respondents (while official sources show 59%). VKontakte, which was considered the most visited social network in Kazakhstan, ranks second in this survey, 53.6% of respondents use it (according to official data 71%). LinkedIn was used only by 2.4% of the students surveyed.

Fifty-nine per cent (59%) of the respondent students do not have a professional social network account, and 52.4% of the respondent students do not publish content demonstrating professional skills. 11.4% have a separate account for professional use, and 29.5% of respondents have one account for personal and professional use. The majority of the respondents do not post professionally-oriented content so they can develop their personal brands.

Figure 3. Students' publication activity on social networks



According to students, when asked what content might make the HR department refuse to consider candidates for work, 50,6% respondents responded with sexually provocative pictures, 48,2% students regarded as negative feedback about their work, 44,6% students chose 36,7% students chose inappropriate language, contradictory, religious, social opinions, 34,9% consider that these are negative comments about the employer, 22,3% respondents chose inappropriate photos from the party, and 6,6% chose none of the above.

## V. DISCUSSION

As world studies of this topic show, social networks in the modern world play a huge role and are used not only for communication but also for business development, personal brand and job search. According to the results of a study in Kazakhstan, this trend is not so developed, and Kazakhstani employers pay more attention to resumes and motivation letters. Most job seekers also do not pay attention to the development of a personal brand in social networks.

In this survey, a more significant number of students using Instagram as the most visited social network of 92.2% of 166 respondents (while official sources show 59%). VKontakte, which is considered the most visited social network in Kazakhstan, ranks second in this survey, 53.6% of respondents use it (according to official data 71%). Moreover, the most professionally targeted social networks, such as Facebook, are used by only 4.2% and LinkedIn by 2.4% of the students surveyed. In comparison, 86.8% of those interviewed by HR view LinkedIn to search for employees and 54.7% view Facebook, 47.2 % view Instagram of applicants. Nevertheless, as the survey shows, mainly employers are looking for candidates in the Headhunter 84.9%.HeadHunter is one of the most important job and employee search sites in the world. Most students, 79.5%, also think CV and motivation letters to be the best job search tool.

Nevertheless, still, as the study shows, the development of a personal brand is essential and can affect the decision of the employer. Only 3% of recruiters consider personal branding on social networks to be completely unimportant, 17% believe that the development of a personal brand has a low impact on the device, 11.3% chose a little important, 35.8% consider the development of a personal brand moderately important, and 30.2% think that a developed personal brand in social networks is essential in the modern world. 36.1% of respondent students believe that for faster employment in Kazakhstan, the development of a personal online brand is moderately important, 21, 1% consider it a little important, 20.5% of the respondents answered very important, 8.4% of students think that personal brand in social networks extremely important, 4.8% and 9% chose that personal branding is low. It does not matter at all, respectively.

As the results of the survey show, the most detrimental effect on recruiters is caused by the content on the network of inappropriate abusive language, sexually provocative pictures, conflicting political, religious, social opinions. The research shows that the majority of recruiters 39.6% rarely look at social networks of applicants in less than 10% of cases, 22.6% look at social networks in about 30% of cases, 7.5% of recruiters look at 50% of cases, 17% of recruiters often in more than 70% of cases they browse social networks of applicants, and 5.7% browse the social networks of each applicant, and 5.7% of recruiters never browse.

The results of the survey showed that social networks of applicants for management positions are viewed more and CV on job search sites, and a letter of motivation is considered the best source for pre-selection. Still, they can see an account on social networks during the selection process. Moreover, for a significant number of recruiters, a well-developed professional account can affect the employment decision. Students in Kazakhstan do not develop social media accounts for professional purposes. However, also a more significant number of respondent students consider developing a personal brand to a moderately important for job search.

### **Conclusion**

The conclusion that can be drawn is that Kazakhstani University students spend on average 5-6 hours per day on social media and understand the importance of a personal brand and reputation on social networks. The most frequently visited student platform is Instagram, and students do not exclude the possibility that a potential employer can look a piece of information about the applicant and harmful content can often be a grounds for expulsion from consideration from the position. Because the trend of developing a personal brand is only grooving on in social networks, most students do not produce a personal brand and consider traditional online recruitment platforms and

resume more effective tools for finding a job. Nevertheless, still, most students think that in the modern world, the development of a personal brand is essential. At the moment, in Kazakhstan, the active development of a personal brand is mainly carried out by entrepreneurs, which allows them to develop their name, freelancers who show their work and attracting customers because now social networks have become not only a platform for communication and more as a platform for business development. Soon students will begin to relate to their profile in the same way in which companies treat their site, showing benefits, working for a reputation and the name.

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# **The Sino-Japanese dispute over Diaoyutai/Senkaku islands:**

## **The role of domestic politics**

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### **Introduction**

Senkaku/Diaoyu islands is an archipelago of eight uninhabited islands that are located in East China sea. The neighboring territories are Taiwan, Mainland China and Okinawa prefecture of Japan. Japan controls islands after the transfer of administrative control from the United States in 1971. However, the Japanese possession over archipelago is disputed by China and Taiwan, who are suggesting that the islands were under Chinese rule since XIV century until it was ceased to Imperial Japan after First Sino-Japanese War. Chinese and Taiwanese claims are almost identical, that is why this paper only focuses on Sino-Japanese factors.

In this research, I want to look in Sino-Japanese relations through the prism of Senkaku/Diaoyu islands dispute and how the disagreement affect bilateral relations of both countries. Furthermore, the events in 2012 contributed to ongoing stalemate in diplomatic relations between both countries. The main research questions of this project are:

- 1) What factors shape Chinese/Japanese approach toward the problem of islands?
- 2) What is the role of domestic politics?
- 3) What are similarities and differences of Chinese-Japanese cases?

I want to study this dispute because it would be sufficient contribution to the related field of research, moreover, it is a dispute among major powers in Asia, which will affect regional as well as world stability. Furthermore, this theme is important in a scope of East China Sea security and International security as well. Mainly because of several threats and warnings from both sides in response for violating territorial waters of one another. If the dispute will grow, the tensions between China and Japan could escalate into regional conflict and taking into consideration Japan-US security agreement, where the US have to help Japan in case of an attack, Washington will be dragged into the conflict as well, mainly because the USA is obliged to protect Japan from any outer attack because of the mutual security treaty.

The methodology of this paper is an analysis of perspectives of several countries regarding the dispute and it is a case-oriented study which is not survey based but focuses on the historical evidence. This paper will try to trace historical pieces of evidence and claims made by both countries' in answering the question of belonging of the islands to one or another party. Willing to be more objective I will call the disputed area by the Japanese and Chinese name with the slash indicator.

### **Theoretical Framework**

The theory that I will use is Realism - a predominant school of thought in international relations. However, while taking this theory as a base for my research, I want to narrow it down purposely for Sino-Japanese dispute. Realists are of three kinds in their understanding of the source of conflict. A Classical realist believes that its human nature, neorealist argues that the system is anarchic and neoclassical realist believes that actions of a state are influenced by cognitive variables - such as misperceptions if other state's intentions, and domestic variables - such as state institutions, society, and elites. That is why the theory of my study will be neoclassical realism within realist school of thought. As applied to my study, this theory holds that I would expect my independent variables such as elites; society driven by nationalistic sentiments; to influence or explain the dependent variables such as state actions towards dispute because it is influenced by domestic actors in the conflict.

According to neoclassical realism, foreign actions of both Japan and China are heavily influenced by domestic actors, such as society and elites. For example, Beijing's approach towards the dispute is fueled by Chinese nationals who see Japan's nationalization of islands as a struggle for power, while not forgetting Japan's war atrocities towards China in World War II. Furthermore, China's misperception of Japanese intentions in the privatization of islands halts negotiations process. On the other hand, right-wing nationalist elite such as former governor of Tokyo Mr. Ishihara, fearing the growth of China wanted to purchase the disputed islands, thus indirectly shaping Japanese approach towards the islands. Japanese government was well aware of Mr. Ishihara's intentions and taking into account his nationalistic approaches, tried to minimize the deterioration of Sino-Japanese relations by purchasing the islands before Mr. Ishihara. However, such actions was misunderstood and interpreted by Beijing as a violation of status quo.

### **Methodology**

The research of this paper will be qualitative because it is suitable for gaining an in-depth understanding of underlying reasons and motivations behind Chinese and Japanese actions, which is the core purpose of this study. It provides insights into the inception of a problem and is more exploratory and investigative rather than quantitative research which provides a broad overview of a problem. The decision to use qualitative research is explained by the absence of statistics in my research.

Being the internationally recognized issue [Senkaku/Diaoyu dispute], there were conducted a lot of research with data collected from independent scholars, as well as, from international agencies. As a result, it excludes the possible usage of primary research method. Due to the lack of resources and impossibility to field visit or personally collect data, this study will be based on the secondary research, on a data that is already gathered by other researchers. An analysis that allows me to explore areas of interest without having to go through the process of collecting data personally in the field. There are a variety of materials that already contain research data that will be used in my study, such as; news reports, written account of past events, governmental documents, historical archives and etc.

As it was mentioned above, this paper will be focusing on documentary analysis method, which involves gathering information from existing documents without having to conduct experiments or interview people. Secondary data collections are essential part of a documentary analysis, in my case, Senkaku/Diaoyu dispute dates back to 1970s, if not to times of Ming and Qing dynasties. As a result, this research is to certain degree focuses on historical aspects of a problem, and secondary data is the best available source of information. While using historical documents and reports the potential obstacles may arise in obtaining the valuable data for my research, such as timeline, I have to be aware of any changes in data throughout the time, whether they were redefined or not, another problem is accessibility to data: some documents might be classified.

### **Literature review**

Mark E. Manyin in his "Senkaku (Diaoyu/Diaoyutai) Islands Dispute: U.S. Treaty Obligations" report to Congress in January 2013, briefly gives background information about Japanese claims over Islands, Chinese claims and official US position regarding the dispute. The report mainly focuses on US administration of islets since 1953 till 1971; then he provides information about the application of Senkaku/Diaoyu to the treaty of 1971 known as Okinawa

reversion treaty, that covers security matters of defending Japan with the US help; after that, he reviews the official position of the US. The author supports the idea of US involvement in possible conflict if China undermines Japan's status over the islands.

Yuki Tatsumi in her paper called "Senkaku Islands/East China Sea dispute - A Japanese perspective" suggests that the dispute has two dimensions. First is the territorial dimension which deals with disagreement with China over the sovereignty of islands. The second dimension is economic in which China and Japan fail to draw demarcation line where their exclusive economic zones (EEZ) overlies. The author suggests that with the recent events the issue now has a political-military perspective. The paper focuses on Japanese perspective over the island, the author provides an overview of Japan's claims and Chinese activities around the islands that bothers Tokyo. She then explains what challenges Senkaku/Diaoyu islands present to Japan and how Japan-US alliance is shaped by the dispute.

In the paper "The Senkaku Islands Dispute between China and Japan" Daniel A. Metraux argues that the small rock sized islets has nothing to offer but the right to control the territorial waters around them which are rich in fish and have possible oil and gas reserves. However, he then suggests that the Nationalism, a long history of hatred and warfare, and competition in the region is the major factors in shaping the importance of the issue of the islands for both countries. The author then explains the main reasons for writing the paper, the first is a confrontation of his students over the dispute, the second is the demonstration which he witnessed in Tokyo in 2012 and the third is a confrontation of Japanese and Chinese ships in Senkaku/Diaoyu islands in 2010. The paper then studies a history of the dispute about the belonging of islets to China since ancient time, Japan's claim that nobody lived and administered the islands and treaties which force Japan to cede all territories seized from China before World War II.

Zhongqi Pan in paper "Sino-Japanese Dispute over the Diaoyu/Senkaku Islands: The Pending Controversy from the Chinese Perspective" focuses on three aspects of the dispute: first the ownership of the island; Japan and China disagree whether the island was unclaimed when Japan claimed the sovereignty; second the return of the islands: Japan seized the Diaoyu/Senkokus after first Sino-Japanese war but failed to return after the following defeat in World War II; the third demarcation of maritime boundary.

Robin Harding and Charles Clover in their article "China steps up incursions around disputed Senkaku Islands" review the latest Chinese actions which fuel the ongoing dispute. The authors provide examples of Chinese construction of artificial islands in order to push maritime boundary further north and violation of territorial waters by a coast guard ship equipped with cannons.

Carlos Ramos-Mrosovsky in his work "International Law's Unhelpful role in the Senkoku Islands" argues that the applicable international law regimes have obstructed Sino-Japanese resolution on three key ways: first the United Nations Convention on the Law of the Sea enables any country that has sovereignty over Senkaku/Diaoyu islands to claim territorial waters that are rich in energy, thus granting worthless islands immense economic values; second international custom law encourages display of sovereignty; third international legal norms can be constructed by countries to fit their interests.

Scott Lockey in his paper "A Contingent Liability: Why resolution of the Senkaku/Diaoyu Islands dispute is in Australia's national interest" briefly provides background information about the issue. The author then examines Australia's national interest in the ongoing Sino-Japanese dispute. He suggests that any escalation of the dispute would disadvantage Australia in a number of ways. The main argument is that Australian economy will suffer significantly, primarily because China is the largest export market and safe sea routes are required for trade with Japan and South Korea.

Marek Jan Wasiński in his work "The Senkaku/Diaoyu Islands Dispute Tiny Islets and Immense Legal Problems" provides basic geographical information about islets. The author then explains in detail the UNCLOS's (UN convention on the law of the sea) articles that determine the type of island, legal territorial waters and the size of it. He then goes and examines historical background, both claims of Japan and China, and treaties after World War II.

In the paper called "Explaining Stability in the Senkaku (Diaoyu) Islands Dispute" M. Taylor Fravel argues that China appears as a "dissatisfied" actor who wants to change status quo while Japan is "defender" because it administers islands since 1972. The Author also suggests that both sides adopted the strategy of delaying that postpone settlements to the future. The paper mainly focuses on factors that contribute to the stability of the dispute as well as an absence of compromise.

Roberto Bendini in his work "The struggle for control of the East China Sea" provides in-depth information about Japan's and China's claims over the islands. The author suggests that deterioration of China-Japan relations poses a serious threat to the stability of the region and prevents

further political cooperation. However, the author believes that regional conflict will unlikely occur. He then examines legal entities which are being used in the dispute, such as UNCLOS and etc.

In a paper called Diaoyu/Senkaku Islands Dispute: Japan and China Ocean apart William B. Heflin argues that Japan has a seemingly valid claim to the Senkaku Islands. The paper analyzes China's and Japan's competing claims as well as historical background on them. He then focuses on the status of the islands and actions made by both parties on ownership. The author suggests that Japan is the rightful administrator of the islands, he points out that Tokyo peacefully administrated islets since 1952, if not for more than century.

Alfred Soons and Nico Schrijver in their brief paper called "What does International Law say about Diaoyu/Senkaku Islands dispute?" provide basic information on the issue. Then they briefly discuss possible solutions to the problem. The authors argue that international law can't solve the issues unless the parties have given their consent. Thus it is up to the parties to negotiate a solution. The paper states that even if the dispute to be solved, the parties still have to agree on the delimitation of their EEZ boundaries, which could fuel another dispute.

Jonathan Kaiman in his article called "Japan's Abe and China's Xi hold an ice-breaking meeting as Apec starts" points out about a crucial meeting between two leaders in Beijing since 2012. However, the author argues that relationship still remains raw between two countries.

Tetsuo Kotani in his work "The Senkaku Islands and the U.S.-Japan Alliance: Future Implications for the Asia-Pacific" provides background information on the dispute. However, critically critiques Chinese claim over the islands. He suggests that China's claim lacks legal foundation and based on questionable historical documents while pointing out the Japan has all rights to claim the islets, mainly because in 1895 the archipelago was annexed by Japan in respect to international law. The paper focuses on the argument that China is challenging Tokyo in order to undermine the liberal international order that was established after World War II. He then brings up three possible outcomes of the dispute: 1) if resolved peacefully then Asia-Pacific will see bright future; 2) if resolved by coercion then Asia-Pacific will be subjected to Chinese hegemony; 3) if resolved through war then Asia-Pacific will face dark future.

James J. Przystup in his paper "Japan-China Relations: 40th Anniversary: “Fuggetaboutit!”” provides detailed information on the consequences of Japan's 2012 purchase of Senkaku/Diaoyu islands from private owners. Notable he points out the main anti-Japanese demonstrations in China,

how the Japanese economy suffered due to the boycotting of Japanese goods. The author then continues with a chronological explanation of officials reactions to the nationalization of Senkaku/Diaoyu islands. At the end, the author reviews the public opinion through polls which were conducted by Nikkei Shimbun in Japan and Global Times in China.

Reinhard Drifte in his research called "Japanese-Chinese territorial disputes in the East China Sea – between military confrontation and economic cooperation" analyzes the economic, legal, political and military confrontation between China and Japan in the East China Sea. He reviews in detail legal background of the problem. The author then provides information about hydrocarbon resources which are nearby Senkaku/Diaoyu Islands. He argues that no side should be blamed, because, at different times, both of sides went ahead in drawing political approach without achieving prior consent from the other side.

Hitoshi Tanaka in policy brief called East Asia Insights briefly examines the Senkaku/Diaoyu issue and describes it as a challenge to the stability of East Asia. He suggests that compromise cannot be reached because of stubborn positions of both sides. China which previously was took the stance of status quo now is taking the much aggressive approach by sending the warships and planes. The author suggests that Japan and China should increase their cooperative efforts toward the Regional Comprehensive Economic Partnership (RCEP) free trade negotiations.

Yves Tiberghien in his paper The Diaoyu/Senkaku Dispute: Analyzing the Chinese Perspective provides detailed information from Chinese point of view. The author suggests three key factors on China's position: 1) Historical claim; 2) Fishing claim; and 3) Political reality. Then he argues that Senkaku/Diaoyu issue is linked to a dispute over Dokdo/Takeshima islands between South Korea and Japan. He gives an example of then Korean president Lee Myung-Bak's visit to disputed islands in August 2012 as an accelerating factor to take actions in Senkaku/Diaoyu islands dispute. At the end author, concludes that dispute will worry the waters of Asia Pacific for quite a time if both sides will not find an institutional solution.

Tsuyoshi Kawasaki in his work called "The Diaoyu/Senkaku Dispute: Analyzing the Japanese Perspective" in contrary to Tiberghien's report, analyzes the dispute relying on Japanese sources. Kawasaki regards Governor Ishihara and Prime Minister Noda as key figures in understanding Japan's position in the dispute. The author also focuses on factors in the misperception of status quo by three key players: governor Ishihara, Prime minister Noda and the Chinese

government. Kawasaki then continues by analyzing motivations behind Ishihara's and Prime Minister Noda's actions in 2012 purchase of islands.

In a paper called "Issues on the Title of the Senkaku Islands: Analysis of the Viewpoints of Japan and China," Kyoko Hamakawa examines different viewpoints of China and Japan over territorial sovereignty of Diaoyu/Senkaku Islands. Hamakawa analyzes dispute in three factors: 1) legal norms justifying Japan's incorporation of islands, whether they were terra nullius (no man land) or Chinese territory; 2) if so, did Japanese government incorporate them in a valid manner; and 3) have Japan exercised sovereignty over the islands continuously and peacefully.

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## **Social media becomes mass media**

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### **ABSTRACT**

The development of the Internet has produced such a phenomenon as new media. Unlike traditional media with its structure and form, new media is a form of citizen journalism where non - professional media market participants create content independent of traditional media market players in the various form of videos and reader blogs. Despite the fact that the content usually is not created by professionals, and such media are not amenable to standard understanding of the media, with all its elements of structure and functioning, however, such casual media formation at the moment have extensive coverage, often comparable to traditional market players and there is a significant increase in audiences, as well as the quality of content and timeliness, which in combination with easy for modern Internet user of forms filing and placement, create significant competition to conventional media in terms of engagement and scope. Moreover, a tendency for new media to replace traditional media can be perceived. This research aims to understand whether such processes do actually occur, by analyzing the existing research on this topic and conducting a survey of real media viewers.

### **CHAPTER I: Introduction**

Recent years have been marked by tremendous development of information technologies. This is reflected in almost all spheres of human life, including mass communication. With the technological shift, a shift in the paradigm of mass communications can be also observed (Castells, 2013). Development of Internet communications, brought such phenomena as social media. Social media are digital platforms used to connect people, create and share content. It has been less than two decades since the modern social media came into existence during which it attracted a huge following. If initially social networks served only for communication, as they developed they gained greater social and communication importance (Bhandari, 2019). With the development of Internet technologies, obtaining information has become available to a wider range of people, in a variety of forms, where access to information has also become greatly simplified. But more importantly, content creation has become cheaper, and therefore accessible to the masses. If earlier only media companies had the resources to create content, now almost everyone has access to content creation and publication. According to Livingstone (2015), social media becomes mass media. It is offered to look at this issue through the prism of Two Step Flow of communication theory, according to

which most people form their opinions under the influence of so-called opinion leaders, who in turn are influenced by the mass media (Baran & Dennis 2014). That is, ideas flow from the mass media to opinion leaders, and then from them to the wider population. Opinion leaders pass on their own interpretation of information in addition to the actual media content. And according to this theory, bloggers, content creators, acting as ordinary users of social networks, by socializing with other participants, should act as opinion leaders on their behalf. In practice, the hypothesis is that they have ceased to be opinion leaders, and themselves have become a source of mass media, which destroys the effect of the Two Step Flow theory.

This paper relates to the study of the fundamental changes occurring in mass communications. The work raises two hypotheses. The first hypothesis is that new media began to replace traditional media, or in other words new media becomes mass media.

RQ1: Have bloggers become perceived as media or are they still perceived as just opinion leaders?

RQ2: Do bloggers perceive the traditional media as a superior authority?

The survey method was chosen to answer these questions. A sufficient number of people will be approached with detailed questionnaires following the logic of the set hypothesis expanding the key research questions. Feedback of the sampled audience addressing the study's research questions will either confirm or refute the hypotheses that have been put. If the hypothesis proved correct, in order to prove or refute the universality of the hypothesis - the same questions can later be addressed to different geographic locations for further research.

## **CHAPTER II: Literature review.**

Nowadays, the Internet is developing rapidly and is becoming the main mode of international communication for commercial firms, non-profit organizations, independent print and broadcast media and governments. Millions of people use Internet every day for a variety of purposes. The most common of these is social networking, which has become especially important for citizens establishing contacts with people abroad. In addition, during the crisis, the Internet turned out to be a constant source of news and information - mainly because it cannot be completely turned off. The specifics of the Internet made it possible to organize regular news broadcasts to a wide audience without deployment of special technical infrastructure. Thus, almost anyone was given the opportunity to create the media. Online publications may have official media status or may not have it. A journalist working for an online publication (an online journalist), as a rule, does not encounter

many of the attributes of traditional journalism. The legal aspect of the journalist's activities on the Internet is also important. In fact, the journalist is responsible for the information published, but in practice this is not always the case.

In 2003, LinkedIn was launched, and this was followed by Myspace and Facebook in the year 2004. YouTube was launched in 2005 followed by Twitter, followed by others such as Drive2, Google+, Instagram and Snapchat (Oyza & Edwin, 2016). The rapid development of technology in recent years, especially in mobile phones made social networks available at all time and information spreading has become faster than ever. The number of people who use social media for information sharing is increasing (Zhang & Chen, 2014). Approximately, there are 2.7 billion or about 37% of the people in the world who are actively using social media until January 2017. Moreover, 40% of a total of 25 respondents who were interviewed in depth say that they use social media to share information and 80% of respondents use it to find information (Kemp, 2017). In terms of the number of search queries, social networks have long surpassed the usual leaders, who traditionally were mass media outlets (Edosomwan et al, 2011). Internet search engines began to index personal pages of social network users, that is, in the search engine request for a given topic or keywords, arise personal pages of users containing relevant content.

With the advent of social networks, the so called bloggers and other types of similar content creators appeared. According to Vokuev (2011), a blog is a new means of communication, in which there is a mixture of intimate and public, which indicates a change in the nature of intimacy and publicity in the modern sociocultural situation. Blogs are part of the modern mass communication system, while classic media are usually auto-communicative. Bloggers are users of social networks who cover, create content on certain topics and post on their pages in social networks. Earlier, bloggers were not perceived as media. They were perceived as ordinary people, individuals who have a page on the Internet, where they share some of their thoughts on some topic, and were not perceived expertly (Loader et al, 2011). But the world is facing a reality where bloggers are turning into full-fledged mass media, due to their reach, which can often be equal to or greater than that of traditional media, and equal or easier accessibility than that of the traditional media (Napoli, 2011). Today it can be seen as bloggers are replacing traditional mass media in the broadcast grid of people And the opinion of a blogger becomes more authoritative and less criticized. Although the content continues to be casualistic, compared to traditional professional media. (van Dijck et al 2013).

According to Marx (O'Hara, 2003), there should be media in the superstructure - and now, according to the hypothesis, instead there are to be virtually uncontrollable private persons for whom the same rules of the game as for mass media cannot be applied, thus existentially reshaping media space in some kind of anarchical state.

McFluen's third law states that social networks recreate previously outdated media communication functions. By this is meant interpersonal communication, the exchange of opinions. The main principle of the work of social networks is constant involvement of the audience in communication, which is effectively achieved by creating such a communicative environment where each individual user has the opportunity to share opinions. Thus, social networks, which have become the new media channel, comprehensively transform mass communication reality, influencing the sender of information, the recipient, the nature of information and messages, forming a new communication environment that is different from the one created by traditional media (Pichugina, 2013).

Soloviev claims that blogging and traditional media coverage of how "citizen journalists" transmit information in the absence of conventional media can rightfully be considered a new trend in the world of journalism. Developing in symbiosis, the media, telecommunications networks and the electronic environment lead to the transformation of the global media system. These changes, in turn, open up wide public access to the field of interactive media, new media created not solely by professional journalists. And now, consumers of information are becoming its producers. This process has been called "citizen" journalism in a number of studies. It hypothesizes that modern mass media and blogs are aimed at interacting and complementing each other, being in a single information space. The phenomenon of "civic" journalism has appeared long ago. Its foundation was laid back in the beginning of the 20th century, and with the advent of the Internet, the methods and channels of distribution have significantly changed. Despite the fact that today information from the blogosphere and various podcasts is very popular, there is still debate about whether this phenomenon should be considered journalism or not. In the author's opinion, the answer is rather positive. After all, the only serious difference between a "civilian" journalist and a professional is the degree of responsibility. The veracity of information, objectivity and quality depend on it. Unfortunately, these properties are not always inherent in the official press, which, to some extent, equates it with the civilian one. Thus, in practice, it turns out that "civic" journalism not only does not lag behind professional, but also is ahead of it in many ways (speed, accessibility, independence). Unlike some experts, the author does not think that "civic" journalism will replace professional

journalism. He hopes that soon there will be only one relationship between them - cooperation. At least many media are already close to this. (Soloviev, 2017).

According to the research by Kalinina, the media system is qualitatively transforming itself into a new communicative reality in which citizen journalism is strengthening its position in the media sphere. The growing popularity of this type of journalism is associated with an increase in distrust of traditional media. People are more likely to believe a person from the people who maintains their blog than a news broadcast on television, which is funded by the state. It is this type of journalism that implements the communicative function of the media, suggesting professional activities aimed at ensuring public dialogue. In the future, as the theorists of journalism note, there will be a rapprochement between civic forms of participation and traditional, professional journalism, which will affect development and lead to changes in news. The author states that the phenomenon of civic journalism is a natural and necessary process in the development of the communicative culture of society. (Kalinina, 2013).

According to Filling, is a well-known fact that journalists are very similar to bloggers in their activities, however, there are significant differences between them that are important to understand. Both bloggers and journalists share information with readers. Nevertheless, for journalists this is the work to which they devote all their time, and for bloggers it is more important to present material and visuals. In addition, anyone can become a blogger, regardless of age, and journalists are people with proper education in the field. It is important to remember that journalists have ethics and responsibility for what they write. Bloggers are not mandatorily responsible for the accuracy of the information; while at the same time they cannot be punished for this. This is the problem, as there is an increasing tendency for people to engage with bloggers than that of traditional media. (Filling, 2015).

Filling acknowledges that the blogosphere is the fastest-growing part of the Internet, which has recently been showing a nearly three-fold increase in a year. According to the author, blogs will soon supersede traditional media. The author comes to the conclusion that blogs become as influential as the media, but not because their influence has grown significantly, but because the media has dropped to their level, because otherwise they would lose their audience. At the moment, blogs and the media, of course, are competing structures for the attention of readers. (Filling, 2015).

### **CHAPTER III. Methodology.**

One of the main research methods will be surveys of randomly selected people in order to understand to what extent they choose to trust either traditional media or bloggers, which will be performed in an online form. For the study, a standardized survey will be used. When creating a survey, program questions will be formulated that correspond to the solution problem. Then these questions will be translated into questionnaires. They will be installed in the online platform and sent to people using the mailing list. The complimentary method is in-depth interviews with the representatives of the traditional media and bloggers. Unlike an ordinary interview, which refers to the empirical view, in-depth interviews do not have a short answer “yes” or “no”, but detailed, reasoned answers are required. An in-depth interview will be conducted in the form of a free conversation in an informal setting according to a pre-drawn up plan, and its purpose is to study the beliefs, values and motivation of respondents. The interview will be conducted online or face-to-face at the request of the respondent. The second complimentary method in order to firm a triangular scheme of methods to address research will be the content analysis of the bloggers’ content and comparison of it with the content of the traditional media. Content analysis is a special rather strict method of qualitatively quantitative analysis of the content of documents in order to identify or measure social facts and trends reflected by these documents. The peculiarity is that it studies documents in their social context. The sample of the population for the survey will be random, using, for example, such large social networks as Facebook and Instagram from among the subscribers of various traditional media or bloggers. This sampling does not take into account age, gender, nation, as the respondents will be chosen in a random way so that the results are not compromised. For the interview, a sample will be selected from representatives of traditional media and bloggers who produce informational news content that is similar to traditional media content. According to Wikipedia, there are currently 156 newspapers and 269 magazines in the country. Also registered 285 electronic media. Thus, 11 representatives of traditional media from different fields of activity will be selected: print and non-print.

#### **CHAPTER IV: CONCLUSION**

Genre distinctions between reporting and essay, news and analytical review are erased and this is far from all the features of online journalism. Currently, social networks can become a replacement for traditional media. The Internet is superior in average daily coverage to all other media, including television. The likelihood of print media disappearing is not high, but they are changing in accordance with current trends, they are becoming more targeted to their audiences and its needs.

The study is important because if the hypotheses are correct, then the existing media theories need revision in order to be applicable to the new environment. This issue, as well as a number of others will be on the agenda of the future research this paper opens clearance to. It is viable for understanding by all participants, since it depends on how to restructure the relations of the beneficiaries of the media to achieve their objectives, regulatory issues, censorship, issues related to the quality of content, ways of promotion through the media for organizations, control and so on. Does this make society more free and informed, or does the overall quality of the content produced decreases? Whether there is more variety or the choice, on the contrary, it narrows. Do the news become more transparent or do contrariwise they become subjective. How governments can interact with the media in the changing environment and how to formalize such interaction from legal perspective.. Does this all mean the end for the media or is it a new era. How can traditional media survive in this paradigm, is there room for it, can it evolve within this paradigm. What implications this all bears. These questions require an answer and may be topics for further research.

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# Universal Basic Income in Kazakhstan

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## 1. Introduction

### 1.1 Background

Poverty lies as a basis of this research. This is something that drives further discussion and considered within this study. The definition of Poverty is: not having enough material possessions or income for a person's needs. Poverty may include social, economic, and political elements. There are different types of poverty, they have different definitions and cover different causes and severity of poverty. For the purpose of this research, it is sufficient to know the following types of poverty described in by Eric Jensen in “Teaching with Poverty in Mind (2009):

- Situational poverty is generally caused by a sudden crisis or loss and is often temporary. Events causing situational poverty include environmental disasters, divorce, or severe health problems.
- Absolute poverty, which is rare in the United States, involves a scarcity of such necessities as shelter, running water, and food. Families who live in absolute poverty tend to focus on day-to-day survival.
- Relative poverty refers to the economic status of a family whose income is insufficient to meet its society's average standard of living. The threshold at which relative poverty is defined varies from one country to another, or from one society to another.

The concept of Poverty is not in the center of this study. We should take the poverty as it is and try to answer the following question: “What is being done by the world to reduce poverty?” and “Is there a better, more effective ways to eliminate poverty?”.

These are the question that Governments and non-governmental organizations are trying to solve, the goal is to reduce poverty all over the world.

There are many programs currently available in most of the countries that focused on providing certain opportunities to people “in need”. There are programs for retirees, for people who are unemployed, for people who are below the poverty line, for people with disabilities etc. There might be a difference in “classification” of such type of programs between the countries. However, the essence of the programs is quite similar: Help people by providing them certain opportunities and with necessary resources, these people should belong to a certain group(s) by satisfying predetermined requirements or conditions.

There are Welfare programs in US that can serve as an example. Welfare programs are government subsidies for low-income families and individuals. Recipients must prove their income falls below a target, which is some percentage of the federal poverty level. The six major welfare programs in US are EITC, housing assistance, Medicaid, SNAP, SSI, and TANF. These welfare programs differ from entitlement programs like Medicare and Social Security.

Another example is TSA (targeted social assistance) program in Kazakhstan. State targeted social assistance is a payment in cash provided by the state to individuals with monthly average per capita income below the poverty line established in regions, cities of republican significance, the capital, in the form of unconditional and conditional cash assistance described by E-government of Kazakhstan (egov.kz). In the case of Kazakhstan, Unconditional monetary assistance is provided to two major groups of people:

1. Single and/or lonely low-income people with limited opportunities to participate in employment promotion measures in connection with:
  - achievement of retirement age;
  - disability of the first or second group;
  - the presence of a disease in which the term of temporary incapacity for work can be established for more than two months.
2. Low-income families, all able-bodied family members of whom are invalids of the first or second group and/or have diseases in which the term of temporary incapacity for work can be established for more than two months, and/or care for:
  - a child under the age of seven;
  - a disabled child;
  - a disabled of first or second group;
  - the elderly;
  - needing outside care and help.

As it has been discussed, these are “conditional” programs, since they imply certain condition(s) for a person to be eligible and get access to a program.

The alternative to the types of programs described above is a universal program, that does not depend on and conditions and serve the same purpose as previously mentioned targeted programs. This program is called Universal Basic Income or UBI.

According to Wikipedia, a universal basic income is a government guarantee that each citizen receives a minimum income. It is also called a citizen’s income, guaranteed minimum income, or basic income. It

approaches the problem of people not having enough to live on by giving everyone a check equal to the cost of living. In its fullest form, it's:

- Universal, serving all members of society;
- Basic, enough to cover basic needs;
- Income, an unconditional, recurring payment guaranteed for recipients' lifetimes.

The intention behind the payment is to provide people with enough resources to cover the basic cost of living and ensure financial security.

Basic income has a long history, claiming supporters from across the political spectrum. Over time, everyone from Thomas More, to J.S. Mill and Thomas Paine, to Milton Friedman and Friedrich Hayek, to Dr. Martin Luther King and Facebook founder Mark Zuckerberg have expressed interest in some version of the policy. In the 1970s, the US and Canada conducted negative income tax pilots in 5 regions, and congress under President Nixon nearly passed a law implementing this basic income variant. However, the pilots were inconclusive, and the political moment passed. While interest in basic income has surged again recently, a true universal basic income has never actually been fully implemented, and countries around the world are still weighing the pros and cons.

Universal Basic Income is being considered by many societies nowadays as a best way to demolish poverty and provide opportunity (freedom) to people, and experiments are being performed on country/regional level (Finland, Canada etc.), many of which are described by World Economic Forum ([weforum.org](http://weforum.org)) and other resources.

Martin Luther King Jr. in *Where DO we Go From Here: Chaos or Community?* (1967) wrote "I'm now convinced that the simplest approach will prove to be the most effective—the solution to poverty is to abolish it directly by a now widely discussed measure: the guaranteed income"

## **1.2 Research Focus**

Making poverty a history is a noble aim, but which poverty? There are different types of poverty and its level is unique for each society. Third World relative poverty is both quantitatively and qualitatively different from that in the Fourth World (people suffering poverty in the affluent countries), but they are both exclusions from decent and dignified lives in their societies. Exclusion may not be deliberate but it is the foreseeable

consequence of poor people's lack of power over the resources needed to buy their way out of poverty, and the lack of respect by the non-poor for their human rights to dignity and to resources needed for social participation.

The focus of this research is to study feasibility of implementing Universal Basic Income in Kazakhstan as a way to provide people with opportunities. Opportunities to have an access to basic needs and to have a freedom of choice: area of studying, activities to do, job or career to occupy.

The main incentive behind this topic is income inequality in Kazakhstan as a market economy – GINI index was 28.8% in 2018. This implies broad distribution of income among its citizens and big gap between maximum and minimum income. Besides, 4.5% of population of Kazakhstan is below the poverty line that is defined by subsistence level – \$76.66 per month as stated by Ministry of National Economy of the Republic of Kazakhstan Statistics committee (2019)

Another global concern that will potentially exacerbate the existing situation with poverty across the countries is Current tendency of the world economy towards Artificial Intelligence development and means of “automation”. This will potentially introduce the risk of people's job displacement of certain type. The necessity to explore the means of poverty mitigation, and insurance of a basic income to population is becoming even more critical.

### **1.3 Research Aim and Individual Research Objectives**

Kazakhstan current economic situation, income statistics and tax policies are within the scope of this study. The overall aim of the study is to explore opportunities of UBI in Kazakhstan as a supplement of existing targeted programs.

The objective of this research is to:

- Explore the existing TSA programs of financial benefits in Kazakhstan
- Develop economic model for Universal Basic Income calculation for Kazakhstan
- Analyze whether UBI is feasible in current economy and what it will take to implement the program
- Formulate recommendations on UBI implementation

### **1.4 Value of This Research**

Universal Basic Income in Kazakhstan is the topic that has not been explicitly considered or published. However, this is an inevitable discussion that we, as a country, should have at a certain point. The goal is not only to demolish existing poverty, but to secure people that close to the poverty line now or will be in the near future due to global economy trends.

The value of this research is to conclude whether there is an opportunity for UBI in the current economy or what needs should be done to ensure such opportunity. There is a necessity to understand whether UBI is feasible, whether it is a solution to the current and upcoming problems, what the alternatives to UBI are.

## **Literature Review**

Universal Basic Income is considered to be a very topical problem and it is being discussed by a lot of intellectuals across the globe today. One of the most eminent proponents of UBI is Andrew Yang – an attorney, serial entrepreneur and candidate for presidency in US in 2020. Andrew Yang picked UBI as a central idea for his presidential campaign and he is constantly reinforcing the criticality of such concept during every intellectual and political discussions he has. He is also an author of the book “The War on Normal People” (May 2019). All the concerns and ideas that stand behind UBI and his presidential campaign are explicitly described in this book.

According to Andrew Yang and his book “The War on Normal People”, we should acknowledge that besides significant income inequality and associated inequality of opportunities, there is a lack of trust in economic and political institutions, there is poor education system, general depression and overall low social capital, which can potentially destabilize the society. The root of it is financial instability: people are getting older, people do not have adequate retirement savings, people do not start new businesses due to high risk of failure and people owe a lot of money (both private and public sectors). The existing Welfare in United States is not effective and cannot address people’s in the most efficient way. The best solution is to establish UBI for US citizens. Andrew Yang is also solidary with some famous entrepreneurs of the Silicon Valley such as Mark Zuckerberg. The latter expressed strong opinion towards establishing UBI in United States in his speech at Harvard University in 2017, translated by CNBC. There are growing concerns that new technologies such as robotics and artificial intelligence may have a detrimental impact on jobs and wages for human workers. These UBI ideas and proponents are part of the “Third Wave of Basic income” that hit mainstream in 2015 or 2016 according to “The Palgrave International Handbook of Basic Income edited by Malcolm Torry in 2019”.

Proposals that begin to fit the modern definition of Basic Income begin in the 1790s with two writers, Thomas Paine (1797) and Thomas Spence (2000). Paine's famous pamphlet, *Agrarian Justice*, argued that because private ownership of the land had deprived people of the right to hunt, gather, fish, or farm on their own account, they were owed compensation out of taxes on land rents. He suggested this compensation should be paid in the form of a large cash grant at maturity plus a regular cash pension at retirement age: nearly a Basic Income, but not quite. Spence, however, responded to Paine's pamphlet with one of his own, carrying the argument a little farther to argue for higher taxes on land and a regular, unconditional cash income: the oldest known Basic Income proposal. Reference: Malcolm Torry (2019) *The Palgrave International Handbook of Basic Income* p. 256.

The *Palgrave International Handbook of Basic Income* is probably one the most important single source of information on UBI: from its origin to Implementation and Political and Ethical perspectives of this idea.

The study is not going to include an assessment or deep analysis of implications of UBI so as the argument for or against UBI. As it has been stated in the first chapter of the Thesis the primary interest of this paper is to understand and assess Kazakhstan's ability to implement this concept and to answer the questions: 'Is a Basic Income feasible?' Here 'feasible' means 'Capable of being done, accomplished or carried out; possible, practicable'. However, we are interested in understanding the incentives behind UBI, in other words, what are the major positive implications of UBI for Kazakhstan?

According to *The Palgrave International Handbook of Basic Income* (2019), these are the main implications of Basic Income in general:

- Employment Market Effect
- Social Effect
- Effect of Basic Income on Economic variables
- Ecological Effect
- The Gender Effect

It is quite compelling to study all of them in details. However, for the purpose of this study, let us choose the ones that are relevant to the economy of Kazakhstan and the ones that might (with high probability) drive UBI development by the government. These are social effect and the effect on Economics. Employment Market Effect is also something that should be considered studying UBI, but not something that will potentially drive UBI development. One of the potential direct effect of Basic income on Employment market is a decrease in minimum wage, therefore when implementing UBI, Government should force to keep minimum wage and even raise it if such opportunity exists. Besides, Employment Market effect of UBI is strongly tied in with new technology development. Where it is difficult to predict with any accuracy how new technology will affect the employment market in the future, Basic Income should be positive for today's

employment market, and that it should be positive whatever shape the employment market takes in the future  
Reference: Malcolm Torry (2019) The Palgrave International Handbook of Basic Income p. 68.

Social Effect of Basic income is probably the one most significant factor that initiated the idea of UBI many years ago and drives the discussion of UBI today. This includes poverty - the problem that served as a starting point for study introduction; income inequality and inequality of opportunities. This is to introduce UBI as an alternative to existing programs (TSA, Welfare etc.) as more effective/simplified and progressive tool to provide people with basic needs and ensure financial security.

Effect of Basic income on Economics, on the other hand, can be a positive outcome of UBI as a bonus to the Social benefits. Universal Basic Income can have both direct and indirect effects on Economic Growth and Development. Income increase will potentially lead to more consumption and therefore more demand for products and services, this should be considered as a direct effect. Besides that, Basic Income will provide people with time and resources to develop their personal skills and to engage in entrepreneurial activities, which then will lead to added value for future activities and contribute in GDP increase as suggested by Florin Bonciu in "Possible Implications of Universal Basic Income and Universal Basic Assets on Economic Growth and Development," (2018)

The most relevant topic to study within this paper is different forms of funding UBI, since the implementation of UBI in Kazakhstan is a primarily objective of this research. Would a Basic Income be financially feasible? The most probable answer is “yes”. It would always be possible for a government to divert existing tax revenue from public services to fund a Basic Income, or to invent new taxes in order to fund it. However, either of these methods could have consequences for living standards, suggesting that implementation of the Basic Income might not be as feasible as first thought; and, just as importantly, both of those funding methods would require two policy debates to occur at the same time—a debate about Basic Income, and another about changes to the tax system.

According to The Palgrave International Handbook of Basic Income (2019)

There are several ways to fund UBI:

- Income Tax
- Pollution and Resource Tax
- Value added Tax
- Funding Basic Income by Money Creation

Income Tax is the most obvious and common one. The biggest advantage of this method is its simplicity. Income tax is quite straightforward. It applies to the whole population of the country that has an official income. Besides simplicity, it is considered to be a “fair” concept, from the perspective of: people with higher

income should share more with those who have lower income. Since the tax is a percentage of you income, the previous statement is always true.

While Pollution and Resource Taxes can also be considered as a “fair” approach, the implementation of such funding might have some complications. The main one is it more difficult to regulate and track environment related aspects of businesses than income of citizens. “Pollution” by companies and corporations already regulated and it implies fines in Kazakhstan. This is another revenue source and government is capable of redistributing this money the way it wishes.

Value added tax is similar to the income tax, since VAT is also a burden for consumers, in other words population of the country. However, there is no differentiation between low and high income people, VAT in comparison to Income Tax is the same overhead for all consumers, independent on their income level. Therefore it losses to the “Income Tax” concept from the “fairness” perspective.

Funding Basic Income by Money Creation is considered to be an alternative method of funding UBI. It will not be considered within this study, due to the main concern associated with this strategy, which is mass inflation.

There are available microsimulation models that designed in order to analyze the possibilities of financing a Basic Income in different countries on the basis of information usually provided by personal income tax system. One of such microsimulation has been developed for the territory of Catalonia described in Feasibility of Basic Income by Jordi Arcarons, Daniel Raventos Pañella\* and Lluís Torrens Mèlich (December 2014). This study might be useful to use as a benchmark for further analysis of Kazakhstan model. Despite the fact that this microsimulation model covers only one part of Spain and Kazakhstan has almost 3 times lower GDP per capita in Kazakhstan is almost 3 times lower than Spain according to data from [countryeconomy.com](http://countryeconomy.com) (Country Comparison Kazakhstan vs Spain), it is still more relevant comparison than with other western countries, such as US or Canada.

The microsimulation model is going to based on tax microdata, and can be used to analyze the characteristics of income distribution, quantify the features of existent inequality and analyze the progressiveness of the current tax system. By means of a comparison of results from the two situations, one without and the other with BI, determine the effects that the introduction of a BI might have in these aspects.

As it has been stated in the introduction to this study, Basic Income concept has not been established by anyone yet. However, there is an information available on the number of UBI experienced being performed by different nations. As well as the various experiments in the US and Canada during the 1970s, the Basic Income pilot projects in Namibia and India, the payments in Iran that are not far from constituting a Basic Income, the recently completed experiment in Finland, and the various initiatives in Brazil and Mexico, there is a wide variety of other experiments that are being carried or are under discussion for possible implementation in the future. Finnish experimental design focused on a particular target population: the

unemployed. Specifically, the target group of the Finnish experiment was unemployed individuals who on 1 December 2016 were between 25 to 58 years old and who in November 2016 were in receipt of either basic unemployment benefit or labour market subsidy— both administered by Kela. There were certain restrictions applied, motivated by budgetary and practical considerations: sampling outside the registry of Kela recipients would have rapidly increased the required budget, and would have involved setting up additional systems to administer the Basic Income and evaluate its effects. In addition, the Finnish government issued a clear political imperative to prioritize the impact of a Basic Income on labor market incentives. As stated in the legislation, ‘the purpose of the experiment is to gain knowledge how Basic Income affects participants’ labor market behavior and to explore other impacts of Basic Income’.

A key purpose of the experiment was to see whether those in the treatment group receiving a partial and unconditional Basic Income re-integrated the labor market compared to those in the control group.

The Finnish experiment did not count the Basic Income for tax purposes. microsimulations calculated that implementation of the Basic Income model experimented with would involve politically prohibitive tax rates, which means that the experiment operated with a model that was substantially different from what could be implemented, which raises the question as to what is really being tested. As a result, the experiment model was widely criticized as economically infeasible. The results has been described in ESPN Flash Report “First results from the Finnish basic income experiment” (March 2019).

In contradiction to Finnish experiment, this study will not be so much focused on the effect of UBI on Employment market. The main reason is that it is quite challenging to assess and state with a certain degree of confidence such effect without conducting an experiment, since it involves people social behavior and motivation. Instead, the analysis of financial feasibility of Basic Income model is going to be performed within next chapter of the study.

# **E-commerce in Uzbekistan: implementation challenges of e-commerce in Uzbekistan**

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## **Introduction**

This thesis is dedicated to identify main challenges and achievements of e-government in terms of e-commerce in the Republic of Uzbekistan. Republican law on e-government reformation was adopted in 2015 (Law, 2015). This law was adopted after the UN report 2014, in which Uzbekistan was ranked the 100<sup>th</sup> place among 193 countries. Despite of the adoption of the law, in practice fulfillment of this law was not so productive. It required multilateral approach in all sectors.

However, after new presidential election all sectors experienced modifications and new initiatives. Of course, formulation of e-government has served as a key tool in new administration. For the first time on-line portal was used by the new president Shavkat Miromonovich Mirziyoyev in his pre-election platform and it enhanced his direct communication with simple residents of the country. It was the real start of e-government policy chapter.

Now, the official bodies have realized the importance of e-government and innovative technologies. Nevertheless, e-commerce fully has not been launched and that is why there are still issues and challenges that should be addressed. Simultaneously, some online platforms make disbalance among stakeholders. Business owners need sufficient amount of online market places for their goods and services, users need at least basic literacy on ITC and public sector should act faster and operationally in performance of e-government appliances. And the greatest pain is internet deficiency of qualified internet providers without monopoly. Currently, low internet speed and very high prices are the most crucial topic in the country.

Referring to these counted achievements and issues, this thesis is dedicated to the Republic of Uzbekistan. There is no sufficient research and relevant survey focusing on this topic. In most materials, Uzbekistan is being described as a part of Central Asia, but there does not exist particularly addressing this country's issues. E-commerce is new thing for this territory because the UN's e-government surveys show very low performance levels of e-government in Uzbekistan. And selected topic can help to determine real condition of ongoing processes and responding reactions of e-commerce actors.

## **Case of Republic of Uzbekistan**

Uzbekistan has started a dynamic development stage. The main reason is the transition in presidential leadership after the death of founding president Islam Karimov on September 2, 2016 and new president Shavkat Mirziyoyev was elected on December 4, 2016. Now it is the third year of new president's leading period.

The population of [Uzbekistan](#) in 2019 is 32.81 million, this ranks Uzbekistan the 43rd in the world (Uzbekistan, 2019). Almost half of Uzbekistan's population is under 25 years of age, and the unemployment rate in 2018 was recorded at 9,3%, referring to the data of the Ministry of Employment and Labor Relations (The unemployment, 2019). Share of GDP in agriculture is 17.6 %, in industry 32.9 % and other services 49.5 %. Mining, quarrying, and oil and gas are the leading industries of Uzbekistan's economy. The country is the world's 15th largest producer of natural gas and 9th largest producer of gold. The oil and gas sector contributes nearly 16 percent to Gross Domestic Product and employs over 120,000 people. The country's hydrocarbon reserves are significant; according to local industry officials, total primary energy reserves (proved and projected) amount to 5.5 billion tons of oil equivalent, including 1.5-1.6 billion toe of natural gas, 245 million toe of oil and up to 3.3 billion toe of coal (Doing business, 2018).

Economically Uzbekistan is accepted the most perspective region among CIS countries, with huge amount of human resources. Uzbekistan has been ruled just like the U.S.S.R. well into the 2000s. But Mirziyoyev gives Eurasia watchers hope that the region's biggest military power will finally modernize its economy, and get along with other neighboring countries. Also new leader's top priority has become maintaining high economic growth and increasing competitiveness of the Uzbek economy. In terms of e-government, practically implementation actions started within a major program, the "Action Strategy on Five Priority Areas of the Country's Development for 2017-2021" (Action Strategy). The five priority areas of the Action Strategy are:

- Improving the system of state and public construction
- Ensuring the rule of law and further reforming the judicial system
- Economic development and liberalization
- Development of the social sphere

- Promoting security, inter-ethnic harmony, and religious tolerance, and the implementation of a balanced, mutually beneficial and constructive foreign policy. Each priority area contains numerous sub-objectives.

And e-government is under the first goal of Improving the System of State and Public Construction, also civil society development is prominently mentioned, as is transparency in the work of governmental bodies, improving the sharing of information through the media, the decentralization and reform of public administration, the introduction of e-governance, and the improvement of public-private partnerships. Regardless of well-structured national program, there are challenges and obstacles in implementing fully e-governance. There are multilateral issues such as illiteracy of locals on basic IT skills, high price of internet services and distrust of buyers in sellers.

Furthermore, by the end of 2017 nearly all governmental agencies had launched their own “virtual reception room” portals. 96.7 percent of all ministries and departments now maintain official websites and 114 governmental agencies maintain their own electronic portals, 79 percent of which have mobile versions. Given the explosion of smart phones usage, particularly among those under the age of 30, the use of mobile communication will become ever more important in the coming years (Anthony, 2018).

From the time of its launch in December 2016, a new channel – Uzbekistan 24 – has broadcast news twenty-four hours each day. While the new government has gone to great lengths to increase access to information from official sources, much remains to be done with respect to information generally. Public access to the internet and international sources of information (including television) remain a challenge, and private media still faces impediments (Anthony, 2018).

### **Research problem**

As we mentioned above Uzbekistan is transforming its isolated economy into free trade economy, and putting first steps in creating transparent and efficient conditions for its e-commerce actors. As other developing countries, Uzbekistan has almost similar challenges and limitations in launching e-commerce policy. If we summarize most of studies carried on ecommerce in developing countries, many of them count existence of following issues: unreliability of internet connection, the poor availability of accessing it due to poor infrastructure, the high cost of e-commerce platform, and the low level of ICT penetration throughout the country (Molla and Licker, 2005), for these

reasons businesses implementing E-Commerce in developing countries face substantially greater challenges than businesses in developed countries.

In 2018, a meeting with representatives of the e-commerce business (report) was held at the Ministry of Development of Information Technology and Communications of the Republic of Uzbekistan. Hikmat Abdurahmanov, Chairman of the Association of International Business and Technology, reported overview conclusions of this meeting and highlighted main discussed issues at this meeting.

From the discussion, the main challenges of the industry:

1. Low internet speed and penetration
2. Undeveloped logistics, in domestic operations and international
3. Low confidence of people in online trading
4. Limited coverage of payment cards among the population
5. The shadow economy and high taxes
6. Laws do not keep pace, many things have not yet been described, respectively outside the law or imply additional costs and restrictions
7. Payment systems do not support international payments, there is no PayPal presence in Uzbekistan
8. High duties and bureaucracy when importing / exporting goods
9. Restrictions on payment by corporate cards
10. Shortage of personnel in this area and the need for their additional training (Yevgeniy, 2018). These listed issues are interrelated with each other and require technical and organizational approaches.

In developing countries, IT and communication or rather e-commerce growth are substantial. Christian and Asa (2015) mentioned that technology effectiveness is essential in E-Commerce success. However, human, economic, and other organizational issues must be taken into account as well. The US commercial guide report about Uzbekistan also listed the main barriers to development of ecommerce such as insufficient electronic banking services and undeveloped trade regulations, customs regulations and poor integration with international billing systems, strict low restrictions (Doing Business, 2018). These issues are logical and specific for Uzbekistan, as the country for many years has been isolated with authoritative regimen. Even the law on ecommerce was adopted in 2004 and it was empowered only after new president's leadership in 2016.

Country has a lot of challenges and obstacles in creation of transparent and efficient climate for e-commerce policy for domestic businesses as well as cross-border ecommerce. However, this study will try to identify certain reasons and challenges of a young country in realization of e-commerce policy.

The study is dedicated to give the answers to main following questions:

I. What are the main organizational and technical limitations in implementing e-commerce in the Republic of Uzbekistan?

### **Objectives and Rationale of the study**

The aim and main objective of this research is to look at the various challenges of implementing e-commerce reforms in the Republic of Uzbekistan. Objectives are following:

- I. Identify e-commerce platforms' sufficiency.
- II. Identify acceptance level of e-commerce platforms by business owners and consumers
- III. Identify e-commerce effect on economic growth of the country

In this research stakeholders are business owners, governmental bodies, decision makers, e-government and e-commerce platforms, public administration servants and other researchers working in this field.

- For business owners – this study helps to increase their potentials, profit and enhance their competitive power in e-commerce in order to present their goods and services in international e-commerce platforms.

- For governmental officials and decision makers – research findings and recommendations may be useful in their e-government platforms and can be helpful in preparing and making adjustments into e-commerce legislative norms. Also government can make certain visions on coincidence of between e-commerce platforms and businessowners' readiness in creation of effective e-commerce platform and identify its e-government place in this correlation.

- For e-commerce platforms – study results and recommendations can serve to modify and upgrade their capacity and improve technical and organizational sides.

- For scholars – study will be additional background overview, as there are very limited reaserch materials about Uzbekistan.

## **Literature Review**

The term “e-commerce” is described by Chaffey (2011) as all electronically mediated transactions between the company and third party. E-commerce not only provides the companies with huge amount of information and increases the speed of the transactions and decreases costs, but also reshapes their marketing strategies and practices (Ivanov, 2012). According to Currie (2000) e-commerce is revolutionizing the way that organizations conduct their business operations and is set to have significant socio-technical implications. Stockdale and Standing (2004) stated e-commerce adoption barriers are lack of resources and knowledge, skill levels of employee, security concern, and readiness of the small businesses. Hadjimonolis (1999) found that e-commerce barriers are classified into external barriers and internal barriers. External barriers are difficult in obtaining finance and technical information, company products or services are not fitting with the e-commerce, or the way of owner doing their business is not a fit to the use of e-commerce. Internal barriers are lack of management and technical expertise, and e-commerce is not fitting with the current company culture. Khalifa, Irani, and Baldwin (1999) suggested that the major barrier is the risks of e-commerce adoption perceived by the small businesses. Abbad, Abbad, and Saleh (2011) categorized the limitations of e-commerce into technical limitations (insufficient system security, reliability, standards and limited telecommunication protocols) and non-technical limitations (high cost of e-commerce in house development, lack of customer confidence in making faceless sales transaction, and lack of sensitivity to government regulations and standards). According to Heung (2003) the barriers to implementing e-commerce are management support, technical issues, knowledge of e-commerce, partners’ participation, and security.

Aleid (2009) carried out an investigation of different e-commerce schemes in a number of countries with regard to culture, infrastructure and human behavior. They find that there are a number of factors that may inhibit the diffusion of e-commerce into developing countries (e.g. infrastructure, security, e-commerce laws). Developing countries require further Internet access, exploring opportunities for the Internet in education, government and commerce. However, for these goals to be achieved certain requirements need to exist where certain factors play an important role.

Of course, ecommerce is much more modernized and sophisticated in big business centers and metropolises, where the consumers are well-introduced about e-commerce and sellers are more competitive. However turkish scholars, Abdulkadir and Handan (2016) found that ecommerce is reaching a greater sales potential day by day across the country. Individuals started to find e-commerce quite attractive due to the shopping disadvantages experienced in remote parts and small

district. Therefore, it is estimated that the e-commerce potential will be much higher in places where goods delivery difficult by local sellers.

If we look at global tendency of e-commerce, last year 2018, researchers and specialists who prepared “2018 –Global ecommerce report”, found out several statistical numbers in terms of global ecommerce tendency. They put trust in first place in ecommerce. Number of consumers who never buy goods/services online, the #1 reason is trust (49%). People do business with those that they like, know, and trust. For online shops to instill trust fast in consumers visiting their website is crucial. Entrepreneurs want to really distinguish themselves from “ghost shops”. That’s shops that collect your money but don’t deliver the product.

Trust can be a vital factor in business to consumer (B2C) e-commerce. It gives consumers faith to buy products or services even if an e-trader is unknown. It encourages more use of E-Commerce technologies, makes the e-transaction process easier and enhances the level of acceptance and adoption of e-commerce. Moreover, it leads to the improvement of consumer commitment, raises customer satisfaction, introduces the concept of loyalty, sustains long-term relationships with customers and assists the acquiring of a competitive benefit (Christian and Asa, 2015). Future purchases can be motivated and increased prices tolerated. It reduces customer worries about information privacy, and helps customers to tolerate the irregular mistakes made by the e-trader (Pittayachawan, 2008).

In Uzbekistan, there are deficient amount of researches in e-government implementation. Only scholars, who worked on Central Asia or developing countries, partly stated about Uzbekistan.

However, recent most up to date research and investigations were done by the US government. The main reason of this research was Foreign Direct Investment (FDI). It can be noticed that the inflow of FDI towards the economy of developing countries has significantly increased. Majority of Central Asian countries has become a top destination for FDI inflows due to the several strengths they show like the abundance of natural resources as well as increasing number of population size which is essential for ensuring the market size (Nasritdinova, 2018). In Uzbekistan scenario, local government is also strongly encouraging foreign investors to invest in Uzbekistan. And countries that have willingness to invest in Uzbekistan, doing surveys and exploring domestic market before they export and invest. And the US government also prepared their commercial guide about Uzbekistan. They concluded that the number of Internet service providers has grown in Uzbekistan, but penetration remains low and government regulation is strict. Tashkent, with 90 percent of the country’s Internet users, is the only viable e-commerce market in Uzbekistan.

Also US researchers stated the main barriers to development of e-commerce are insufficient electronic banking services and undeveloped trade regulations. Basic Internet service is adequate and Uzbekistan has extensive fiber optic networks. The number of internet users exceeds 13 million people. Increased Internet service delivery by mobile phone operators contributes to the potential for e-commerce, and there are approximately 23 million cell phone users in the country now.

Domestic e-commerce is gaining momentum as domestic trading platforms develop. However, cross-border e-commerce is still hampered by customs regulations, and the fact that billing systems of major international e-commerce platforms (such as e-bay.com and amazon.com) have not extended to Uzbekistan.

One of the key factors in the development of domestic e-commerce in Uzbekistan is the improvement of mobile payment services. Smart phones can now be linked to bank cards or sales purchases. This method of payment for both the seller and the buyer is more convenient than a plastic bank card.

In terms of cross-border e-commerce – Chinese and Turkish products are popular with the local population. Most popular online purchases are health and beauty products, electronics, clothing and shoes. As a relative new comer to e-commerce sales, Uzbekistan's market is not saturated and open to new products and ideas. Customs regulations and poor integration with international billing systems are factors currently inhibiting e-commerce sales.

Some companies host e-commerce sites (such as [www.olx.uz](http://www.olx.uz)), and many individual Uzbek companies maintain an Internet presence. More sophisticated sites, such as [osonol.uz](http://osonol.uz), are beginning to appear, but remain in an early stage of development. Beginning January 5, 2016, Uzbekistan Airways launched online ticket sales for flights (Doing business, 2018).

Popular ecommerce Sites:

[www.my.gov.uz](http://www.my.gov.uz)

[www.facebook.com](http://www.facebook.com)

[www.olx.uz](http://www.olx.uz)

[www.zor.uz](http://www.zor.uz)

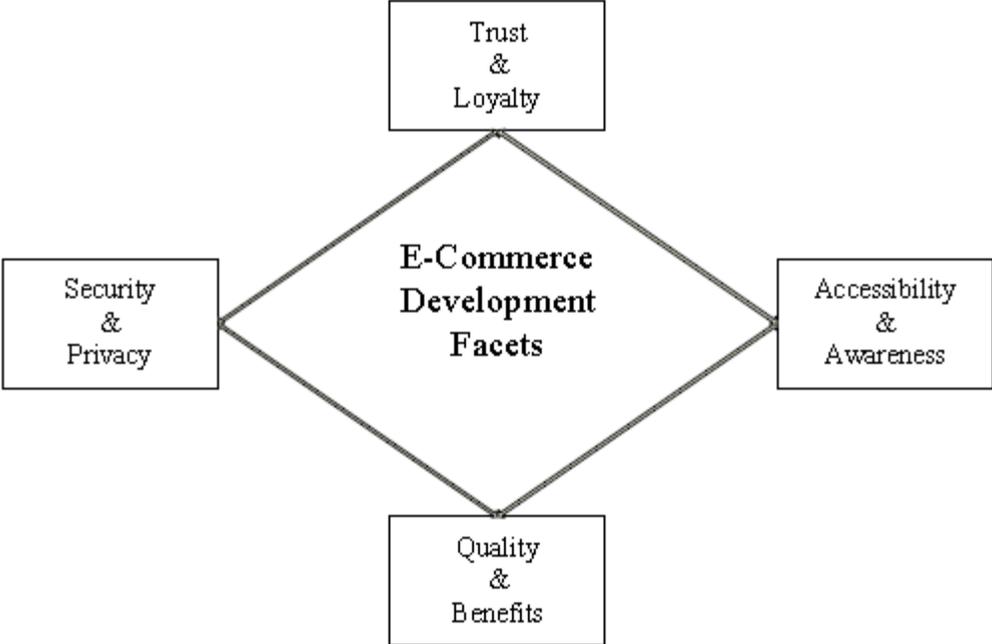
[www.beautybox.uz](http://www.beautybox.uz)

The US mostly emphasized assessment on how e-commerce can be profitable for the US nation to invest and gave overview condition of e-commerce in Uzbekistan. They assess e-commerce in the perspective of international level. However, in current research internal domestic challenges will be mostly prioritized.

**Theoretical Framework**

Previously, Hadjimonolis (1999) and US scholars mentioned in their works mostly technical-organizational barriers and absence of appropriate trading regulations of e-commerce, in Uzbekistan case their findings suits more than others. However, if taking into account e-government the launch happened at the end of 2016, the pace of other e-government categories practically take time. And barriers which were counted in literature review all exist in Uzbekistan. As an example of Stockdale and Standing (2004) come up with mostly identical findings to developing countries are resource rapture, lack of sufficient and specific knowledge in ITC, security issues and most importantly readiness of small businesses for e-commerce platforms. All their points are applicable for Uzbekistan, G2C category. Their research concepts which focus on technical, organizational and readiness indexes of government and business owners correspond to Uzbekistan. Because there is a high demand for experienced ICT professionals in private and public agencies. And many small business owners do not have their websites, or most of them do not introduce their goods and services in online markets due to high prices of advertising.

For the B2C e-commerce category, trust and loyalty attitudes of consumers towards e-commerce operations are essential reasons to keep them loyal and purchase more goods and services in the online market. Christian, Asa (2015) and Pittayachawan (2008) stated that trust and loyalty motivate buyer and create a sense of tolerance for increasing prices. They start feeling empathy towards seller’s failure. The following concept structure coincides to settle B2C e-commerce challenges.



**Figure 5.**

## **Conceptual framework**

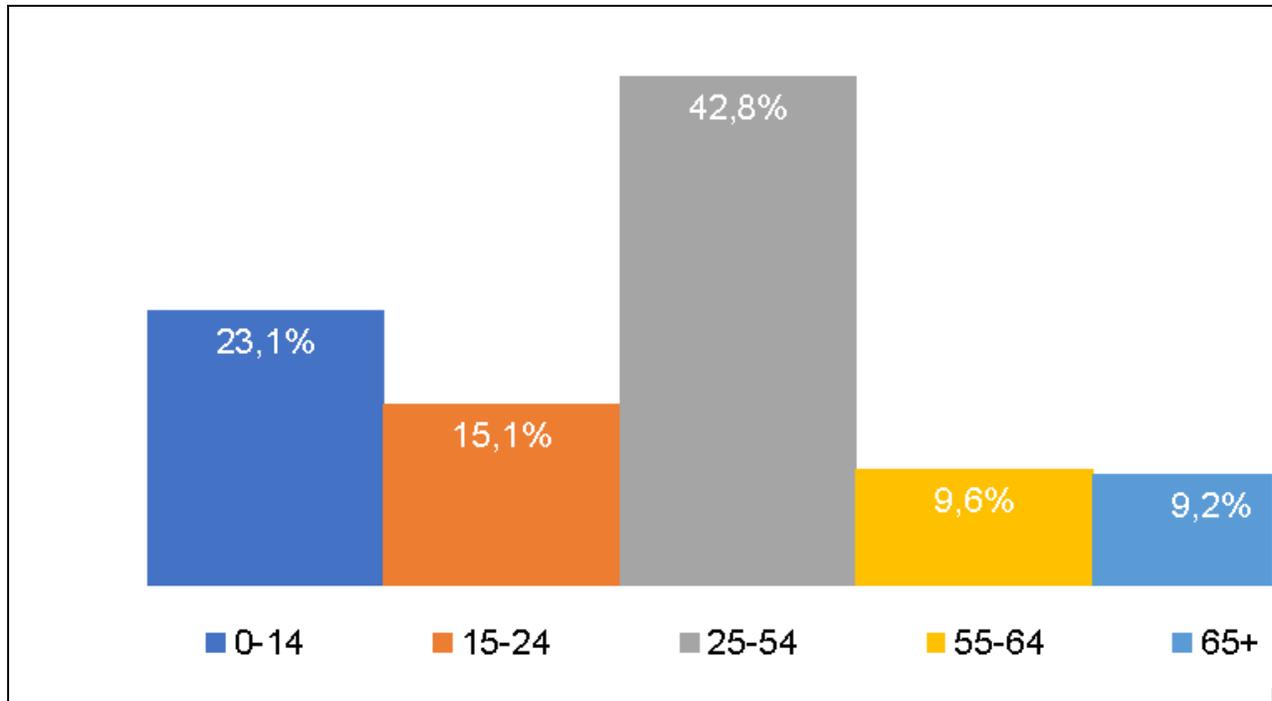
The research is aimed to identify the main challenges and constraints of implementing e-commerce in Uzbekistan and small business entities readiness level for e-commerce platforms and determine online consumers' preferences and difficulties in purchasing the goods and services. Based on E-government's G2B and B2C categories, this study indicates independent variables based on main services of e-government for small business owner and consumers. List of independent variables: tax-related services; enterprise registration; obtaining permits, licenses, reference documentation etc.; governmental payments, fines, and fees; e-procurement. Dependent variables are going to be based on performance indicators of small business entities, which are following: quarterly net profit, the percentage of revenue increase, employee turnover, and for consumers dependent indicators are trust, satisfaction, paying capacity, attitude toward goods and services.

## **Methodology, Sampling Process and Geographical limitations**

This is a crucial part of any research due to the important impact it can have on the quality of the research findings. The focus of this research is on Uzbek business owners (small business entities) and active e-commerce consumers to determine the challenges and constraints they face in e-commerce interactions. Population of Uzbekistan almost 33 million people and density is 73.33 km<sup>2</sup>. According to the data of Ministry of Economy and Industry of the Republic of Uzbekistan, in 2018 the number of operating small business entities, excluding dekhkan and private farms, was 238 500. Of the total number of small business entities 8,2% are small enterprises, 91,8% are micro firms. In 2017, the share of small business and private entrepreneurship in GDP was 53,3% or 119301 billion soums. 78,3% of the employed population of the country work in small business. In 2017, the share of small businesses in the production of industrial products was 39,6%, agriculture - 99%, construction – 65,1%, retail turnover – 88,4%. The share of small business in the total export volume of the republic is 27%, import - 50%, investment - 32%. In the regional context, the largest number of small businesses functions in the city of Tashkent (22,6%). Also 90% of internet users live in Tashkent, at the same time Tashkent the only viable e-commerce market in Uzbekistan. According to the “KPMG, 2017 Global Online Consumer Report” age group between 25-54, made more online purchases in 2016/2017 than any other age groups, averaging nearly 19 transactions per

year. Based on this finding, as active user of e-commerce platforms will be people of Tashkent city who were born in 1994-1965 (Figure 5).

Figure 6. KPMG, 2017 Global Online Consumer Report



### Data collection and analysis

Research is aimed to proceed primary collection of data through the provision of questioners to respondents. Questioners are considered to collect data on dependent and independent variables and general information about the respondents. This practice considered to be most efficient and fast in terms that respondents will be given a chance to choose answers from options that are presented as intervallic choices. Questioners will be distributed to agencies and organizations that provide free support to enterprises, through targeted email and open entrepreneurship conferences where the study can have access to the required number of respondents.

And for the sample of active e-commerce platform users will be identified by the most frequently used hosting platforms like [www.zor.uz](http://www.zor.uz) and [www.olx.uz](http://www.olx.uz) in a condition of following the security and privacy rights of each consumer. This way may ease research performance; however

other options such as online-markets in telegram channels will be also involved to achieve a sample number.

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## **The impact of ethnocentric attitudes and its antecedents on positive and negative outcomes of cultural tourism**

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### **Abstract:**

The main aim of the current study is to examine the relationship between patriotism, cultural openness, ethnocentrism and positive and negative outcomes of tourism in cultural in Central Asia. The study uses quantitative survey method. 146 questionnaires were used for data analysis that included descriptive statistics, confirmatory factor analysis (CFA), and structural equation modeling (SEM) analysis. The study found that patriotism had a significant positive impact on ethnocentrism of local residents, while cultural openness had a negative impact on ethnocentrism. The ethnocentric attitudes of residents were significantly related to the positive and negative outcomes of tourism. Recommendations are provided as to addressing the challenges related to cultural differences and regional cooperation for better understanding, tolerance, and social interactions between people living in the countries of Central Asia. *Keywords: Cultural Tourism; Patriotism; Cultural Openness; Ethnocentrism*

## **Does Remittances and Institutional Quality matter for Financial Inclusion.**

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### **Abstract**

This paper uses dynamic panel data method to investigate the nonlinear effect of remittance inflows on financial inclusion in high remittance-receiving developing countries for the period of 2011-2017. The paper found that initially remittances contribute negatively to financial inclusion which is measured by an opening bank account and then positively at a later stage. In the early periods, the use of remittances seemed to be unproductive. However, with the passage of time increasing remittances associated with better institutional quality, proxied by trust and bureaucracy, were witnessed to lead to more productive utilization. In contrary to the existing literature stating that remittances foster financial inclusion, our evidence show that the effect of remittances on opening bank account is conditional on the level of inflow of remittances and people perception about institutions. The results suggest the impact of remittances on financial inclusion is in the form of U-shape. Policy implications of findings are evaluated.

## **Non-Performing Loans, Moral Hazard and Regulation of the Commercial Banking System in Kazakhstan**

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This study uses dynamic panel data method to investigate the major determinants of bank riskiness, non-performing loans (NPLs) and capital adequacy ratio (CAR) in the banking sector of Kazakhstan. The paper is motivated by the hypothesis that the bank riskiness and credit rating depend on bank-specific and macroeconomic variables. Thus, it focuses on bank-specific variables and the results are consistent with other findings. By contrast to existing literature, the investigation reveals nonlinear relationship between interest rate spread and non-performing loans. The results support the adverse selection and moral hazard hypothesis, suggesting that an increase in the interest margin is associated with high NPLs ratio, potentially causing further deterioration of the loan quality and financial system instability. Policy implications of findings are evaluated.

## **CULTURAL DETERMINANTS OF CSR AND SUSTAINABLE DEVELOPMENT**

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Despite the similarities of people at different longitudes and latitudes, there are also cultural differences in the perception of the physical world, perception of the world of needs, values and their hierarchy. These differences are influenced by national, religious, ethnic, linguistic, gender, generational and organizational culture in which Kowalski is brought up and resides in Poland, Smith in the United States, Murayama in Japan, Zhang in China or Gizaw in Ethiopia. Thus, the perception of the concept of corporate social responsibility (CSR) as well as sustainable development may be different in different places on the earth. This perception is influenced by both culture and its various layers, as well as the personality of an individual i.e. their abilities, skills, knowledge, intellectual, emotional, moral and spiritual intelligence.

The researchers' attitudes towards the idea of sustainable development are ambivalent. Some theorists consider this idea utopian, a great narrative that has no chance of being implemented in a postmodern world. In their view, alterglobalists are the strongest proponents of this idea, which is why this idea is significantly weakened. Implementing the idea of sustainable development would require the existence of a civil society, while people would have to feel as citizens of the world, cosmopolitans. At present, however, there may be great skepticism about this vision; for various reasons, on the one hand, the rebirth of nationalisms and particularisms, on the other, the so-called atomization of individualization of happiness. In many situations, the role of the consumer wins over the role of the citizen. Despite skeptics and malcontents, the idea of sustainable development in the theoretical layer is doing very well, i.e. more and more studies are being developed in this area, the UN first created its Millennium Goals, and currently 17 UN Sustained Development Goals. To some extent, these goals will probably be achieved, although there are many obstacles on the road to such sustainable development, both in the individual and in society.

The purpose of the author's considerations under the proposed article is to analyze the impact of national culture on the position in the SEDA sustainability ranking and on the ESI sustainability index. In particular, the author's intention is to try to answer the question whether culture and what its dimensions, according to Geert Hofstede, can have an impact on sustainable development, or

whether there are any relationships between a given dimension of culture and the sustainable development index. Literature research will also be supplemented by empirical research conducted by the author among Erasmus students studying at the Opole University of Technology, as well as among students of selected foreign universities.

### **Promoting cross-sector partnerships in developing economies:**

#### **Insights from the Kazakhstan context.**

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### **Introduction**

Partnerships between non-government (aka non-profit) and socially conscious business organizations are becoming a mainstream strategy in developed countries. The essence of such relationships is to unite the efforts and resources for the joint implementation of socially significant projects. Such partnerships are using innovative social approaches and technologies to address many complex social and environmental issues. Googins and Rochlin (2000) suggest that partnerships present the opportunity to create a formidable, mutually reinforcing system, which combines the unique capabilities and resources of each party to deliver outcomes that surpass those that either party could achieve in isolation.

In developing economies, the system of political and economic cooperation of non-profit, non-government organizations (aka NGOs or NPOs) with business is still in the process of formation, which limits access of NGOs to potential financial and human resources. Weak cross-sector collaboration with NGOs also constrains the capacity of business to develop effective corporate social responsibility (CSR) programs because NGOs possess the required front-lines experience, specialized knowledge, and extensive networks that can help CSR programs succeed.

## **Literature review**

The challenges of non-profit and business partnerships have gained the attention of many scholars. A considerable amount of theoretical and empirical literature on non-profit and business partnerships in developed economies has emerged in the last few decades (Austin 2000; Austin & Seitanidi 2012; Dahan, Doh, Oetzel & Yaziji 2010; Selsky & Parker 2005; Seitanidi & Crane 2009; Seitanidi et al. 2011; Waddock 1991; Wymer & Samu 2003; Yaziji & Doh 2009). On the other hand, the absence of publications that thoroughly examine this phenomenon in developing economies justifies the statement of Selsky and Parker in their literature review of cross-sector social partnerships (CSSPs) that “reports on empirical studies of CSSPs appear to be better reported in advanced economies than developing ones” (2005).

This paper aims to understand the challenges when non-profits and business companies do engage in partnerships to address social problems in a different economic and political context (Kazakhstan) in order to discover whether the research in developed countries will be applicable in that environment. An additional purpose is to produce practical suggestions on how to overcome challenges in developing and maintaining these win-win relationships. To explore the formation of partnerships in developing economies, we will consider the existing academic research within the context of Kazakhstan’s economic, cultural and political realities.

Impediments, conflicts and dissensions in the formation of cross-sector partnerships have been the focus of research by Seitanidi and Ryan (2007); Babiak and Thibault (2009); and Yaziji and Doh (2009). Some researchers have concentrated on the complexities of partnerships between socially driven and market-driven entities (Wymer & Samu 2003; Baur & Schmitz 2012). These complexities develop because of the different objectives, priorities, values, government regulations, and the scope and level of activity (from local to global) of the partners. As Googins and Rochlin noted (2000), “Corporations and communities may share the same geographic space, but in fact they speak different languages, share different values and cultures, and on a day to day basis operate within quite different worlds.”

These peculiarities definitely affect the formation and implementation of such partnerships, making it challenging, especially in countries where such relationships are new and unfamiliar.

## **Methods**

The theoretical underpinnings for this research are drawn from existing literature on cross-sectoral partnerships. To collect data in Kazakhstan a mixed approach has been used. The basic premise of this methodology was that such integration permitted a more complete and synergistic utilization of data than do separate quantitative and qualitative data collection and analyses.

A survey with open-ended and close-ended questions was prepared to reveal existing cases of NPO-business partnerships, distributed through a national NPO network's email. The qualitative approach was also used since it is suitable for studying the process and social context. Thus, 10 interviews were conducted with representatives of non-profits that have existing partnerships with business. An interpretive and critical model has been taken to understand the challenges and opportunities of these partnerships.

### **Data analysis with critical thinking and discussion**

As we analyzed data from this study, we recognized that while NGOs here solicit help from business with the promise of publicity and enhanced branding, they do not actually fulfill those promises. They appear to lack the commitment, the understanding and the skills to do so, and then they wonder why the businesses will not provide additional support. Thus, this article also includes suggestions from my marketing research as to ways that NGOs can achieve greater success by providing their business partners with greater ROI, using inexpensive digital marketing tools and tactics.

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# LINGUISTIC LANDSCAPE OF ALMATY AS A MEANS OF FACILITATION

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## Introduction

This research paper in its turn is about the relationship of linguistic landscape of Almaty and status establishment and strength facilitation of Kazakh as an official language of the country and Russian and English as the languages of interethnic and international communication. This is the reason for distinguishing between governmental and non-governmental signs apart from distinguishing between monolingual, bilingual and trilingual signs in this research. Furthermore, the signs were also analysed from the perspective of the order of appearance of languages on bilingual and monolingual signs, translation of the content and part of the city the signs are situated. The paper argues that the percentage of mono-, bi- and trilingual signs, its changeability in different parts of the city and the level of the textual items represent the tool of communication inside the social group and with the in-comers and the tool for solidarity or authority establishment from the part of inhabitants and the state.

## Literature Review

Linguistic landscape (LL) is a new field of sociolinguistics and draws academic disciplines, such as linguistics, anthropology, psychology, sociology and many others. According to Landry and Bourhis (1997:23), LL is the "visibility and salience of languages on public and commercial signs in a given territory or region". LL includes advertising billboards, shop signs, governmental buildings and their public signs, graffiti, administrative signs, road signs and street names. The languages of public signs show their relevance or give evidence of what languages are becoming locally relevant (Kasanga 2012).

## Methodology

For this research 630 photos of signs of nine metro stations were taken. The signs are government, including warning, description and information signs and non-government, such as

paper advertisements, billboard advertisements, names of the shops, coffee shops, graffiti, stickers that is everything that is represented in the form of a text, regardless of its origin, design and purpose, in other words, everything that constitutes the linguistic landscape of this particular station and the area nearby.

## **Results**

### *Review of Almaty Underground stations and nearby areas*

After analysing the data, it was found out that in the city of Almaty Kazakh, Russian and English languages are predominantly used in different types of signs. Kazakh language was found in the utmost majority of high-level government signs, names of the streets, monument signs and road signs. Therefore, high-level government signs facilitate the status of Kazakh as the official language of the country, national identity and integration of the state. Its status is proved not only by the number of signs in Kazakh, but also by the design of the signs, giving the official language preceding position and bigger font.

Russian was used in the third of government signs, but very often of a low level, as short reminders and warning signs, it is also commonly used for interpersonal and domestic communication, e.g., during the research there were found only one private advertisement in Kazakh and one which doubled Russian text in Kazakh.

English is frequently used in the road signs to the sights of international importance, such as airport, international springboard complex, skating arena. It is also widely used in commercial sphere and the sphere of entertainment in order to present foreign films, banks, chain stores or to be perceived as a foreign product. Smalley (1994) stated 'English in the public is directed to foreigners' and in Almaty it is used to welcome foreign tourists and bring a homelike comfortable setting for tourists and a foreign setting for the locals. Therefore, signs with foreign languages – English, Italian, French – facilitate international communication.

The phenomenon of abundance of foreign sign takes place only in the central parts of the city, at the outermost station areas Russian and Kazakh languages prevail. These districts are not

attractive for tourists as they tend to be residential areas. Consequently, there is a clear connection between the language choice and differentiation of the city districts.

### **Conclusion**

This research has presented the spheres of facilitation of Kazakh, Russian and English languages. They are government, interpersonal and international respectively. Linguistic landscape of Almaty totally supports the status quo of Kazakh as an official language by government and high-level signs. The status of Russian as the language of every-day use is justified by pragmatics, as there is a distinction between the language people know and the language they use to address each other directly. The status of English is justified by globalization and is facilitated by the desire of foreign interaction from the part of the locals or, if to talk about trade and commerce, the wish to be regarded of a higher quality.

There is a great field for further research in the light of future adoption of Latin alphabet. Linguistic landscape of the city is constantly changing; the borders of the areas tend to alter and there will be constructed new metro stations spanning new districts and, consequently new areas for research.

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**Title: Social Network Use and Adolescents Well-being: Role of Passion and Obsession**

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**Abstract:** The invention and evolution of information technology have change world and use of social networks became a part of everyday human life. With increased use of social networks and other IT innovations, the positive and negative effects of those technology became a debating issue among users and policy makers. Most people argue that technologies are abstract objects, and people are its main drivers, the use or misuse of technology as well as its potential effects depends on the users Therefore, it is necessary to examine users' role in interacting with the social networks and other technological services in the pursuit of happiness and well-being of human life. Based on the tenets of the 'Social Presence Theory' (SPT) of media, this study investigates the impact of SN exposure on subjective wellbeing of social network users in a central Asian country. Data from 251 adolescents were collected using a random sampling method. The study reveals the effect of exposure or user frequency of social networks on subjective wellbeing of the adolescents though this influence appears to be moderated by user habits in terms of passion and obsession toward social networks. Using the empirical findings, this study offers recommendations to mitigate the negative effects of social networks on adolescents' subjective wellbeing.

**Keywords:** Social networks, subjective well-being, personality, passion, obsession.

## **The development of Information technology influenced on payment system in the globe**

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### **Abstract**

The development of Information technology influenced on payment system in the globe. It bring new payment module called online payment. Nowadays we can make payment online, not leaving our home, from balance recharging to paying for mortgage loans. However, at the same time there are some challenges which come together with this technological advancement. If hackers will crack your card details they will make transactions on your behalf. In this studies I have developed credit card fraud detection method using machine learning algorithms that identifies fraud transactions and stops the frauds.

### **Introduction**

As internet technology is developing rapidly, the payment method for goods and services also transforming quickly. According to McKinsey the online payment is showing very fast growth in recent years (refer to the Chart 1). The Chart below McKinsey report shows that digital payment had been grown last 10 years about two times, from 0.9 Trillion USD in 2006 to 1.7 Trillion USD in 2016. In the coming years, by 2022 it is estimated to grow more than 50% and reach 2.9 Trillion USD.

Global payments revenues grew 11 percent in 2017, the highest rate in the last 5 years.

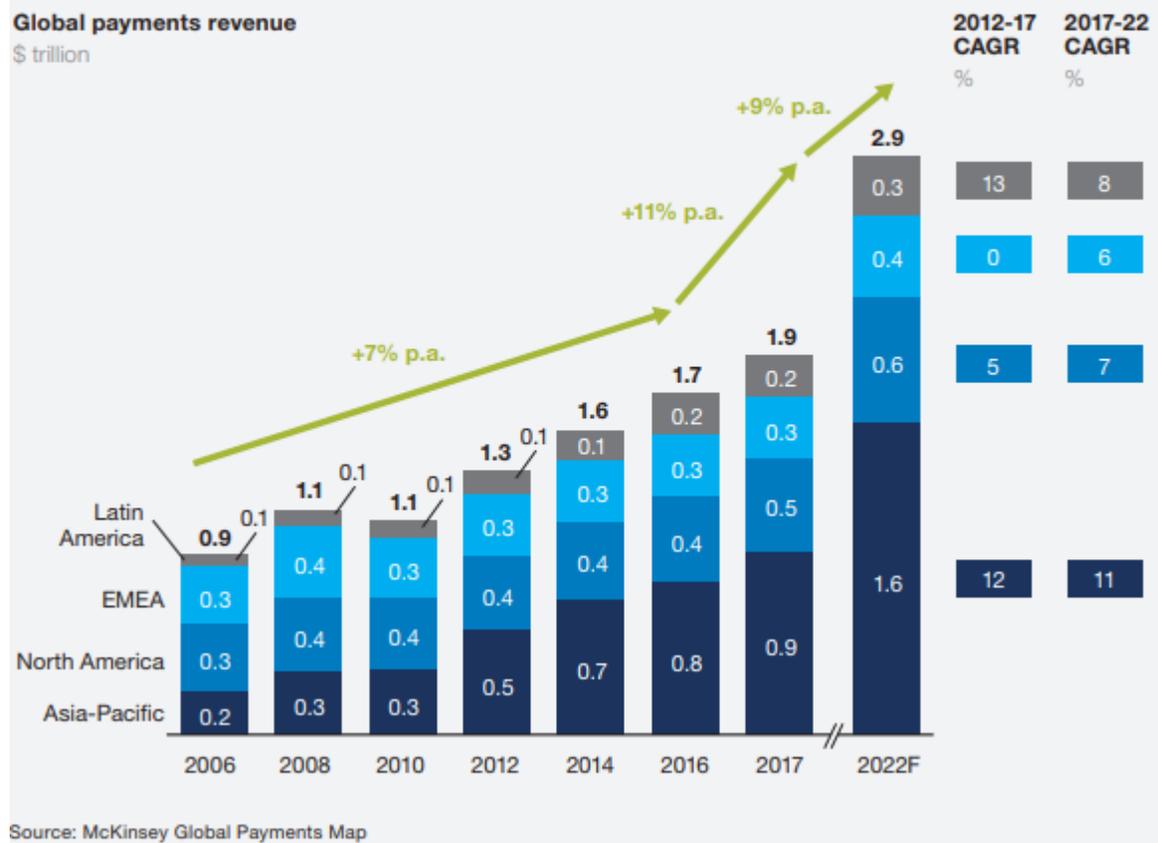


Chart 1. McKinsey Global Payment Map

As digital payment is increasing the card fraud losses are also rising at the same time. According to Nilson Report the card fraud losses almost tripled in last 8 years, from 11.27 Billion USD in 2012 to 32.82 Billion USD in 2019 around the globe.

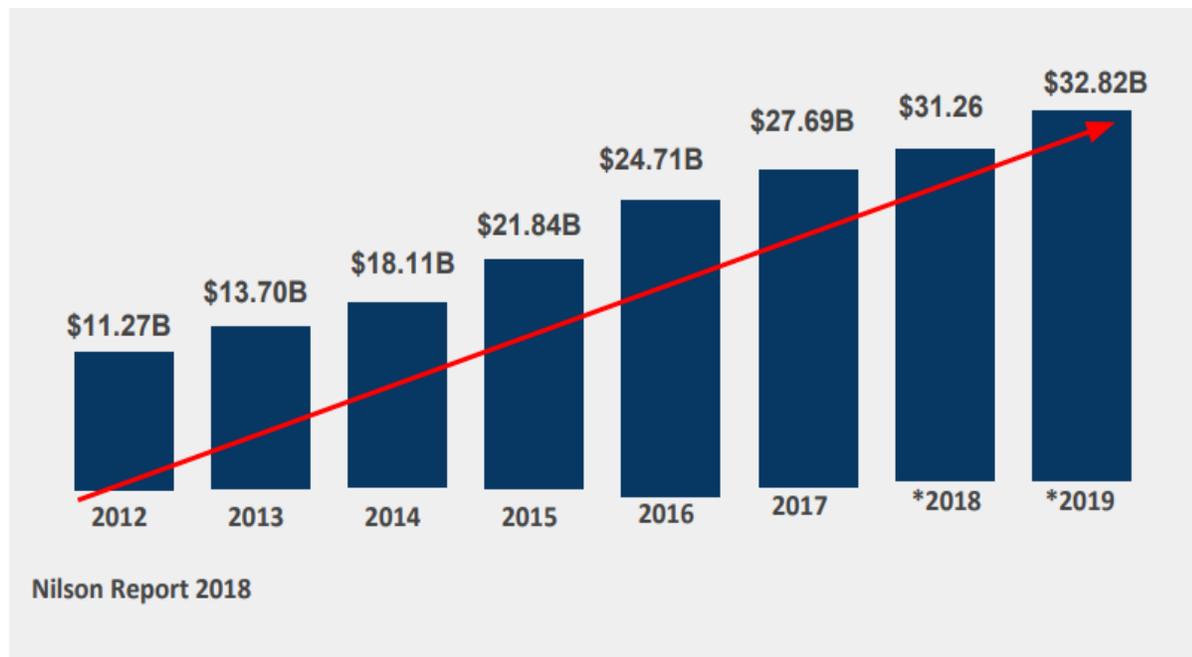


Chart 2. Nilson Report

There are several types of fraud in credit card such as a point of sale, card not present transaction, auto teller machine (refer to figure 3) . POS-A point-of-sale (POS) transaction is what takes place between a merchant and a customer when a product or service is purchased, commonly using a point of sale system to complete the transaction. Hackers may use tool called skimmer, which will read and copy the information about card detail and clone the card and use the money in the cracked account. POC is little bit decreasing as CNP is increasing. However still it is one fifth of entire fraud amount.

CNP- Card Not Present transaction. In our all of online internet payment we don't need card physically. Only information about our card is more than enough. If fraudster cracks card holders detail he can easily steal his money. As ratio of online transaction is increasing rapidly the CNP fraud is rising dramatically. According to European Bank the CNP fraud increased from 60 percent in 2012 to 73 percent in 2016.

ATM-Auto Teller Machine. All we are using ATM machines in our daily life. Fraudsters are putting some sort of skimmer tools on ATM machine. They are copying card details also your typed password. As ratio of CNP are rising more than others and increasing security rules ATM fraud is decreasing two times from 17 percent in 2012, to 8 percent in 2017.

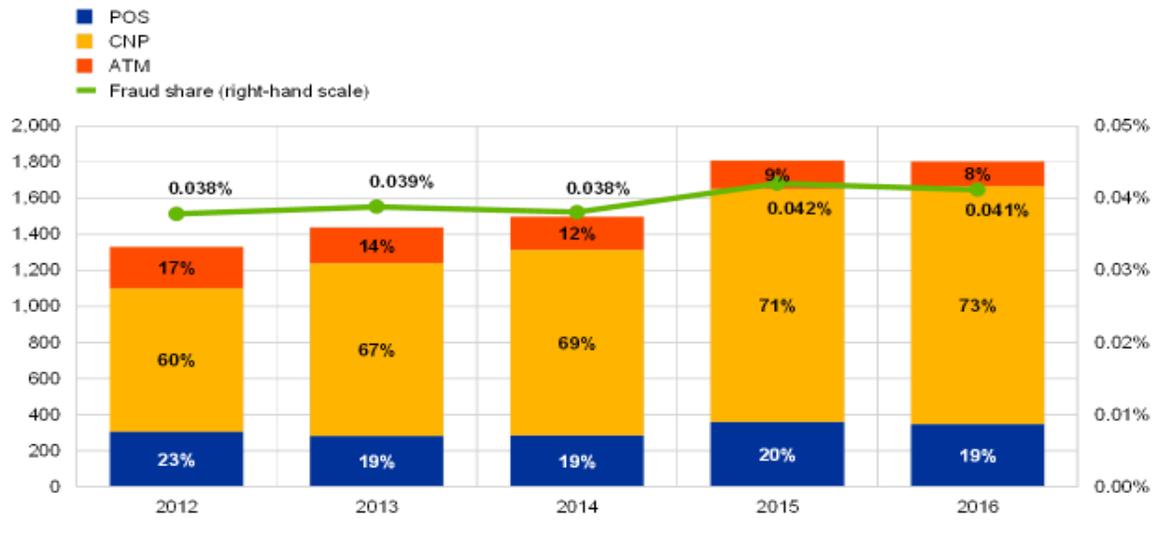


Figure 3 European Bank Statistics

As the majority of Card Fraud is coming to Card Not Present fraud (CNP), which was about 73% in 2017 and continuing to growth, in this research I am working for this problem. As other fraud methods, ATM and POS, can be solved by hardware solutions. In case of an online transaction, either you pay for goods or service, the payment is done where cardholder not requires to be present physically card and himself. In order to make the purchase cardholder enters the detail of the card. However, it is very difficult to identify either it is real owner of the card or someone else providing the data and making the fraud transaction.

### Existing Research:

Nader Mahmoudi and Ekram Duman (2014)[1] proposed Fisher Discriminant Analysis classifier approaches for Credit card fraud detection. They have used profit based modified discriminant linear classifier . For evaluation of their model they have used unknown banks dataset in Turkey, and their achieved results with modified fisher classifier was:

Accuracy: 90.79%

Lakshmi Selvani and Deepathi Kavila (2018) [2] proposed Supervised machine learning classifier for credit card fraud detection problem. They have first balanced the imbalanced dataset with under sampling or over sampling. Then they have used different classifiers. For evaluation their model they have used artificial dataset, and their accuracy was:

- In Logistic regression: 88.6%
- Decision Tree : 92.1%
- Random Forest:93.6%

Shivangi Sharma and Puneet Mittal(2018)[3] proposed Attribute selection and Ensemble techniques for credit card fraud detection problem. They have first trained the module with other supervised classifier algorithms such as Naïve Bayes and Random Forest. Then they have used ensemble of those different classifiers into one model. For evaluation their model they have used artificial dataset, and their evaluation metrics were:

- Accuracy: 91.2%
- Precision: 86.1%
- Recall :91.2%
- F1 Score: 88.5%

Gabriel Rushin and Condi Stancil(2017) [4] proposed K-Fold cross validation technology for credit card fraud detection problem. They have divided the train set into 10 folds and trained model individually then checked accuracy to all of them. Then they have used different classifiers such as Logistic Regression, Gradient Boosted Trees and Deep Learning. For evaluation their model they have used artificial dataset, and their accuracy was :

- In Logistic regression: 82.4%
- Gradient Boosted Tree s: 86.4%
- Deep Learning:87.5%

In the present scenario numerous Credit card fraud detectors have been composed and grown, yet none of them gives full accuracy, by which we can give superior relative investigation. The goal of any kind of credit card fraud detectors is to predict as much as frauds as possible. If our model can predict the fraud, the payment gateway or bank will stop immediately the transaction. For example, according to Nilson report in 2018 \$31.28 billion USD was lost due to credit card frauds. Current credit card fraud detectors identify approximately 90% of frauds. By wrongly prediction of remaining 10% we are losing 30 billion USD yearly, if we could increase the prediction accuracy to 1%, we will save minimum 3 billion USD every year. Moreover, if we develop much precise credit

card fraud detector, cashless payment ratio will dramatically increase. Nowadays due to security issue most people prefer cash payment rather than online payment. Thus, the primary goal of this study is to increase the accuracy of Credit card fraud detection by using machine learning approaches and comparing it with the models or systems which is already being developed.

## **Methodology**

In my research, I am developing the Credit card fraud detection machine learning module by using the dimension reduction. By identifying the correlations between features and output. If the correlation between feature and output is low, we will extract this value from the dataset. The study essentially focuses on the use of machine learning module by using the dimension reduction in Credit card fraud detection. This study looks at the contrast between Module trained with full dataset and feature extracted dataset, which features that has less correlation with output. For each module, with full dataset and feature extracted dataset, while training we will use famous classifier algorithms such as:

- Logistic Regression
- K Nearest Neighbours
- Decision Tree
- Naïve Bayes
- Random Forest

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# Consultative Meetings in Central Asia: New Normal in Regionalism

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## Introduction

The two Consultative Meetings of the Heads of Central Asian states (although Turkmenistan's President did not attend the first Consultative Meeting) that took place in Nur-Sultan and Tashkent in 2018 and 2019 respectively have made Central Asia specialists talk about the resurgence of regionalism. The first meeting in March of 2018 had come as a surprise after more than a decade period of pause in solely Central Asian regional cooperation activities without the participation of any outside regional players. Many specialists explained it by referring to the power transition in Uzbekistan and its new emphasis on Central Asia in foreign policy priorities. The second Consultative Meeting went ahead despite the delay and took place in November 2019. As a result, the Central Asian states have demonstrated their willingness to continue this format as it was decided that the third meeting would take place in Kyrgyzstan in 2020. Hence, there is a new pattern emerging in Central Asian regionalism that is distinct from previous fully fledged regional integration project in the form of first the Central Asian Union (CAU, 1994-2001) and later the Central Asian Cooperation Organization (CACO, 2001-2005). The previous regionalism format can be distinguished by its functioning as fully fledged regional organizations with regular summits that made important economic and political decisions. Therefore it is pertinent to raise the following questions: what do the Consultative Meetings entail for Central Asian regionalism? What form will the new regionalism take?

It can be stated that the Consultative Meetings mark a start of a new version of regionalism in the region. Thus, the *objective* of this paper is to attempt to characterize the new format of regionalism that is taking shape in Central Asia and its future implications to the region as a whole.

## Literature review

The state of the art literature on this topic abound and vary in terms of their perspectives and conclusions. One common feature of these works is that all of them note the (maybe temporary) independent character of this new regionalism in Central Asia.

U. Hashimova notes the different character of the second meeting in Tashkent as it included Turkmenistan's President Gurbanguli Berdimukhamedov the move which made this event indeed a regional endeavor. She marks that almost all the heads of Central Asian countries expressed their worries on regional water issues. Hashimova concludes that the both Consultative Meetings can be described as symbolic and are dominated by the old regional problems such as trade, water, and transportation (Hashimova, 2019). F.Tolipov notes that the fact that such meetings occurred is a success which reflect the objective reality of the region when the regional evolutionary processes are sometimes blocked by geopolitical or personal factors. He compares the tug-of-war between CACO and EurAsEC in early 2000s, in which the former was incorporated into the latter with the conclusion that the both organizations had similar purposes, and between the new Central Asian format and the Eurasian Economic Union (EAEU) due to a growing discourse on the possible entry of Uzbekistan to this Russia-led organization (Tolipov, 2019a). M.Sariyev highlights that with launching the Consultative Meetings the Central Asian countries began to realize their subjectivity as a region. However, he does not exclude a scenario in which five Central Asian countries will have to choose between various "megaprojects" of powerful regional players (Sariyev, 2018). F.Starr et al attempt to find suitable models for Central Asian regionalism to develop in the future. To that end, they explore the unique experiences of Association of South East Asian Nations (ASEAN), Nordic Cooperation, Visegrad Group, and the Southern Common Market (MERCOSUR) and seek to draw some important lessons and implications. By doing so they conclude that Central Asian regional cooperation must be build by Central Asian countries themselves without outside presence and that each mentioned regional institutions offer useful cases that can be taken as guidelines (Starr, Cornell, Gilmore, 2019).

### **Research methodology**

This paper is the qualitative study and built upon the secondary sources provided by the Central Asia specialists except for the minor use of some primary sources as the Joint Statement of the second Consultative Meeting.

### **Data analysis and discussion**

This study argues that this new form of regionalism<sup>132</sup> that is taking shape in Central Asia is a new normal in the regional order that is likely to continue in the near future. Firstly, Central Asian leaders made it clear from the very beginning at the first Consultative Meeting that this new format is not aimed at establishing a new regional integration structure nor is it directed towards any third party (Tolipov, 2019a). Thus, this implies that this is a new form of regionalism which can be characterized as flexible and exclusive. The exclusive nature of the meetings is reflected in the Joint Statement of the second Consultative Meeting that stressed the common goals of the Central Asian countries and the place of the region as one entity in world affairs although the document does not limit the openness of the region to other partners, international and regional organizations (The Permanent Mission of the Republic of Uzbekistan to the UN, 2019). Secondly, it is likely to continue not only in the level of heads of states but also in the level of the Secretaries of the Security Councils of each Central Asian country on the matters of regional security (Gazeta Uz, 2019). Thirdly, this new form of regionalism demonstrates how the first image is able to make a difference in foreign policy and regional politics. Even though K.Waltz emphasized the role of the third image in international politics, we have witnessed how regional cooperation can be revived after the power transition in the countries of Central Asia. The passing of former President Karimov who conducted a more isolationist foreign policy with its closed orientation towards international trade paved the way to a more open and cooperative foreign policy approach of the current President Mirziyoyev in Uzbekistan. However, it is a double-edged sword which makes this new regionalism in Central Asia a fragile construction, hence meaning that any leader (particularly in Kazakhstan and Uzbekistan) who is not in favor of regional cooperation may halt it any time. Fourthly, new Central Asian regionalism is quite sensitive to domestic political changes as it was the case with the second Consultative Meeting in 2019. The meeting that was initially planned for March 2019 was postponed to April 2019 but finally took place in November 2019. It can be explained with the domestic political situation in Kazakhstan that experienced a power transition from former President Nazarbayev to Tokayev and subsequent presidential elections.

## **Conclusion**

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<sup>132</sup> This paper uses the following definition of regionalism provided by M. Molchanov in "Regionalism in Eurasia" p. 328 in *Globalization and Security*, 2009, G.H.Fagan and R.Munck (eds.). Regionalism is defined as an ideology and practice of international affairs specifically motivated by the goal of a joint construction of a "region" – that is, a territorially defined entity consisting of several adjacent states that have collectively decided to hold certain political and economic structures in common.

This study finds that this Central Asian rapprochement can be explained by the combination of first and second images, that is the role of the leader and domestic politics and their impact on regional politics. Overall, the resurgence of regional cooperation with a unified set of agenda in Central Asia is likely to be a regular occurrence in the near future thus marking a new normal in regionalism.

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## The influence of ancient Greek philosophy on al-Farabi's philosophical outlook

### Dedicated to the 1150th anniversary since birth of al-Farabi.

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According to al-Farabi, a single being consists of six stages, or beginnings, of all things. The **first stage** is the *root cause*, Allah the Almighty; the **second stage** is the existence of celestial bodies; the **third** is the *active mind*; the **fourth** is the soul; the **fifth** is the *form*; and the **sixth** is matter.

In the treatise "Civic Politics" (also known as "On the Basics of existing"), al-Farabi provides a detailed account of the beginnings of existence. "The beginnings, which owe their existence to the body and excitement, and which break down into six kinds, have six large stages, each covering a particular category. **Among them the First Reason is on the first stage, the Second Reason is on the second stage, active mind is on the third stage, soul is on the fourth stage, form is on the fifth stage, matter is on the sixth stage.** That which is on the first step, cannot be plural, but only single, individual, whereas from other steps contains set. Three of them are not bodies, and not (are concluded) in bodies - it is the Primordial Reason, the Second Reason and active mind. Three (others) are in bodies, but are not bodies themselves - this is the soul, form and matter" [1] The first three beginnings, being in the world of the moon, represent the world of eternal phenomena, the last three beginnings are the world of the moon, in which the process of development, emergence and destruction is constantly taking place.

Al-Farabi reveals the beginnings of existence, which Aristotle does not meet in this form, but which also means the eternal, everlasting basis of things, their substance. Therefore al-Farabi feels the need, as Aristotle did from the beginning, to define the concepts of "being", "substance" and others. He writes: "The being, we say, is of two kinds. To one species belong things from the essence of which does not follow with the necessity of their existence. The things of this species are called **possibly existing**. Things, from the essence of which their existence always follows with necessity, belong to the other kind. The things of this species are called **essentially existing**. [2] Further al-Farabi notes that the cause-and-effect series of possible things cannot stretch to infinity or constitute a cycle. It has to go back to something essential, namely to the First Essence. Essentially existing is the beginning of existence, the first reason for the existence of things.

"The First Being is the root cause of all beings as a whole... He is such a creature that does not need a reason for existence, for He is not matter, and His existence is in no way material and completely devoid of subjectivity... Moreover, He has no form, for form exists only in matter ... His being also has neither purpose nor desire. Moreover, He is the only one of His kind... ..he has no volume, and he is not bodily at all." [3] The First Being (Primordial Reason, Allah the Almighty) is a perfect, united, independent being from whom things acquire existence. In the Aphorism of the State Leader, al-Farabi describes the perfection of the One, the root cause: "It is impossible to imagine more than His perfection (let alone the existence of such perfection) and a more perfect being than His being, and more truth than His truth, and more unity than His unity. At the same time we know how other existing things have acquired being, truth, and unity from Him. [4]

The root cause is eternal. As proof of this al-Farabi in his treatise "Fundamentals of Wisdom" quotes words from the Koran: "All things are transient except His face" (Quran, 28:88) [5].

Things acquire existence from the first Being as a result of the expiration of His existence into the existence of other things. His being thus becomes identical to the being of things which have arisen from Him. "It is connected with His substance, and from it follows that other things in their substance receive their being from Him. His being, therefore, which expires upon other things, is inherent in His substance itself. Genesis, by virtue of which He materializes in His substance, is identical to being, by virtue of which other things receive their existence from Him. [6]

The extinction of this is arbitrary, it is not the purpose of God: "As for the First (of the Being), the purpose of His existence is not the existence of other things .... [7] And then al-Farabi notes:

"«... He exists for himself." [8] This position of al-Farabi can be interpreted in such a way that he accepted Aristotle's teaching about the root cause, the first engine that Aristotle is fixed, thinks of himself, does not interfere in the affairs of the universe.

In the treatise "On the Origin of Science" al-Farabi notes the creative functions of God: "It remains to prove that the creator of things is outside of them, that the giver of existence is something different from them, that it is God, the creator of substance and excitation, except for which there is no God. [9] The mechanism of creation of the world by the god al-Farabi is revealed in the treatise "Creator of things". Things from god (the First Being) "arise because it, knowing itself, is as if the beginning of an ordered series of goods, which receive their existence properly from it. Thus, his knowledge is the reason for the existence of the thing, which is the subject of his cognition. [10] Thus, the knowledge of God about things is the reason for the existence of all things. God endows things with eternal existence. The act of creation is to preserve the continued existence of things. Let

us note once again that the reason for the existence of the thing is not contained in it itself. The existence of a thing depends only on the God-creator. Al-Farabi argues that "the first creation is the cause of other things created." [11]

The first of the creations is something single in number, namely, the first mind. In the first creation arises plurality, which is inherent in the first mind. From the first mind comes the supreme celestial sphere with its matter and its inherent form-soul. Allah creates the second reason as the first reason, about which al-Farabi writes in "Civil politics": "With regard to the First (Existence), one should have the belief that it is Allah Almighty. He is the closest reason for the existence of the Second (causes) and active mind. [12]

The second reason is the celestial bodies, which according to the ancient tradition al-Farabi considers different from earthly bodies. The celestial bodies are animated and perform perfect circular movements. They all have soul and mind. The number of second causes corresponds to the number of celestial bodies. The second causes are described in detail in al-Farabi's treatise "Civil Politics": "The second (causes) are the causes of the existence of celestial bodies, and the substances of these bodies emanate from them. From each of the Second (Causes) comes the existence of one of the celestial bodies. From the higher Second (Reasons) it is necessary to derive the existence of the First Heaven, and from the lower - the existence of the Moon's sphere, while from each of the intermediate, located between them, arises the existence of each of the celestial spheres. The number of the Second (causes) corresponds to the number of celestial bodies. The second (reasons) should be denoted by the words "spirits", "angels", etc. [13]

From the first mind comes an active mind. A number of active minds comes to an end with an active mind distracted from matter, at which the number of spheres comes to an end. The last of the active minds, according to al-Farabi, is the reason for the existence of the earthly soul and the reason for the existence of the four elements. The active mind can only provide perfection for the human race.

In "Civil Politics" al-Farabi notes that the active mind in that it gives man these perfections, like celestial bodies, first of all, it gives man strength and beginning, thanks to which man aspires independently to all other perfections. Al-Farabi reveals the essence of the active mind in "Civil Politics": "The action of the active mind consists in caring for the intelligent animal (man) and in striving to enable it to reach the highest level of perfection available to it, namely the highest happiness. This is done due to the fact that man reaches the stage of the active mind, which happens

when man dissociates himself from the body without needing his being, nothing else that is lower than his body, matter, or excision. Then he is constantly in this perfection. [14]

In the treatise "Civil Politics" al-Farabi divides all bodies into six births:

1. celestial bodies;
2. intelligent animals;
3. unreasonable animals;
4. plants;
5. minerals;
6. four elements (fire, air, water and earth). "The totality derived from the combination of these six body types is peace." [15] Al-Farabi notes that these four elements are the simplest kinds of matter. The other five species, being complex, are the result of different combinations of these primary elements. In his treatise, *Creature of Questions*, al-Farabi explains that various mixtures of certain proportions predisposed to the acceptance of a plant, animal and intelligent soul must be formed from the elements. [16]

Al-Farabi considered the ultimate development of nature to be the "intelligent animal", i.e., the human being, which is the end result of the development of the simplest material elements. "The least perfect," he wrote, "is a common primary matter, then successively ascend the steps of perfection elements; minerals, plants, animals, devoid of reason, and finally, a reasonable animal, which no one is superior. [17]

Al-Farabi adds a fifth sky element to the four primary elements. In his treatise "On the Origin of Science", al-Farabi states that the sky plays an essential role in the movement of the four elements; "... there are five continents, and the name-land, water, air, fire and sky. The sky, as it moves by its nature, moves the other four matter, mixes and connects them, for if there was no sky, they would not move and would not be connected with each other. [18] Al-Farabi distinguishes the matter of heaven, the celestial bodies from the matter of the four elements in his treatise "Aphorisms of the statesman". He does not consider that heaven is the same matter as earth or water. In full accordance with the ancient tradition, Al-Farabi explores this distinction: "There are three kinds of existing things: created from matter, celestial bodies, spiritual bodies... Three worlds: spiritual, celestial and material." [19] Al-Farabi explains that spiritual bodies belong to something that cannot but exist. To the celestial bodies belongs that which exists at a certain time. The material bodies are those that may or may not exist. The most clear distinction between celestial bodies and material is shown by al-Farabi in the treatise "Creature of

questions": "Although celestial bodies have a common property with the four elements that they are composed of matter and form, the matter of celestial spheres and bodies is different from the matter of the four elements and what is composed of them. Similarly, the shapes of the spheres and of the celestial bodies are different from those of the four elements, although they all share a common property of being bodily, for they are assumed to have three dimensions. [20]

In the treatise "Civic Politics" al-Farabi speaks about four reasons of Aristotle's existence: material, formal, moving (or acting) and purposeful. The beginning of being is cognized by comprehending the four reasons, probably borrowed from Aristotle, although their formulation is more concise, in the form of questions "what", "why", "how", "why". Having reduced the four reasons to two-material and formally-al-Farabi implies by this "acting principles", i.e. form and matter.

The things of the real world (all bodies) consist of matter and form. Form can exist only in matter, and matter exists only for the sake of form. The essence of matter is to acquire form. If there were no form, then there would be no matter. Therefore, according to al-Farabi, the existence of matter without form would be a futile existence. "But nothing among natural things exists in vain." [21] Thanks to form, the being of the body, as al-Farabi believes, is more perfect, namely actual, but thanks to matter, its being less perfect, namely potential. Matter constantly passes from one form to another. Al-Farabi writes about change of forms by material bodies in "Civil politics": "As for the substrate of forms, namely matter, they are intended to be carriers of forms. Matter is also a substrate of opposite forms". It takes both form and the opposite of that form, or its non-existence. It goes from form to form incessantly. [22]

Al-Farabi regards matter and form in an inseparable unity: the existence of matter is impossible without form, just as the existence of form is impossible without matter. He constantly emphasizes that form always needs matter, it can only exist in matter and matter exists for the sake of form. Like Aristotle, Al-Farabi associates the categories of matter and form with the categories of possibility and reality. Matter is an opportunity, a potential state of an object, and form is the reality of matter, its actualization.

Form, being a completed reality, is more worthy of the name "nature" than matter. Al-Farabi agrees with Aristotle that nature is more form than matter. In "Civil Politics" he writes: "Both matter and form are called 'nature', but form is more worthy of the name. [23] Acknowledging the primacy of form over matter, Al-Farabi repeatedly notes that matter can exist only through form. In his treatise "Creature of Questions" he writes: "... the first matter cannot exist free from

form, just as natural form cannot exist free from matter. On the contrary, the first matter needs form in order to become relevant existing thanks to it. [24] Al-Farabi points out that form is enclosed in a bodily substance, as, the outer form: bed-in-bed, matter-in-wood from which the bed is made. Form is what makes the bodily substance relevant. Thus, the bed becomes existing when the tree gets the external form of the bed. And before that, the bed, being a tree, was a bed potentially.

Thus, form exists thanks to matter, and matter is a substrate for forms. For its existence, forms need a substrate. Matter, according to Farabi, is the beginning and reason as a substrate of forms, but it itself is neither the active cause nor the purpose. Matter itself, without form, does not have any existence. [25] It is quite obvious that al-Farabi's reasoning about matter and form almost fully reproduces Aristotle's teaching about matter and form.

Just as Aristotle explored the hierarchy of form, al-Farabi also indicates that forms that need matter have different stages. "At the lowest stage are the forms of four elements, four in number, and they are enclosed in four matter that are part of the same species. What is a form for fire can itself become matter for air. It is the same with all the other elements. The other forms arise from a mixture of elements and their combinations. Some are higher, others lower. So the forms of minerals are at a higher level than the forms of elements. Plant forms in all varieties are at a higher level than the forms of minerals. The shapes of unreasonable animals, in all their diversity, are at a higher level than the shapes of plants. Further, forms of intelligent animals are at a higher level than forms of unreasonable animals. [26]

Al-Farabi has many attributes and properties, including those that were studied by Aristotle: quality, quantity, possibility, reality, necessity, randomness, number, place, time, etc. Al-Farabi considers these categories in his treatise "On the Origin of Science" and in other treatises, where he notes that the fundamental properties of the existence of material things are learned in the categories of quantity, number, quality, causality, action, substance and excitation, time, movement, and so on. Unlike the substance of the First Being, the First Being is undefined. In the treatise "Creature of Questions" Al-Farabi shows that it is necessary to the essence (root cause, God) can not attribute any attributes and properties: "... necessary essence has no kind, no species distinction, no definition, no proof."

It is one both in the sense that its true existence does not depend on anything else, and in the sense that it is indivisible, as opposed to things of magnitude and quantity. It cannot, therefore,

be ascribed neither quantity, nor time, nor place. It is not a body ... its essence cannot be marked by such totality as matter, form, gender and species difference." [27]

Trying to give an extremely general concentration of being and began to be, Al-Farabi in his treatise "On the Origin of Science" concludes that there is nothing but a substance and excitation and the creator of the substance and excitation. Substance in philosophy since the time of Aristotle was understood as the last *subject subject*, which no longer has any subject. In Al-Farabi, as in Aristotle, substance was understood as the essence of the thing. The substitution is perceived only by the mind, and the excitement is perceived by the five senses.

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## Синергетический подход в педагогике

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### Аннотация

В статье дается характеристика понятия «синергетика» и ее дефиниции. Автором проанализированы возможности применения синергетики в педагогике, показана роль синергетики в развитии педагогической системы. Проведена исследовательская работа по синергетическому подходу в системе образования.

*Ключевые слова:* синергетический подход; самореализация; самоорганизация.

В данное время в научных трудах ученых обсуждается много работ, которые позволяют раскрыть возможности применения идей и принципов теории самоорганизации, саморазвития в педагогике. Понятие синергетический подход ещё требует однозначного толкования в педагогике и находится лишь в стадии разработки. По мнению исследователей синергетика в качестве нового междисциплинарного научного направления направлена на закономерности самоорганизации, саморазвития, и может быть приемлема в решении важнейших задач, стоящих перед научной педагогикой.

Синергетика предполагает принципиально новый подход к педагогике и новым способам преобразования педагогической действительности в условиях обновления содержания образования.

Данный подход, несомненно, требует более тщательного исследования в использовании в педагогике, которое обладает нужными инструментами познания, определённым эвристическим потенциалом, которое будет актуально в системе образования. Поэтому возникает необходимость изучить возможности реализации синергетического подхода и феномена в педагогической науке.

В образовательной политике Казахстана происходят процессы модификации системы, активно внедряются новые прогрессивные технологии, имеющие междисциплинарный характер. Среди них особую роль играет синергетика как научное направление, которое нацелено на исследование сложных нелинейных открытых систем.

Термин «синергетика» происходит от греческого «*synergeia*» «содружество», «сотрудничество» и акцентирует внимание на согласованности взаимодействия частей при образовании структуры как единого целого.[1]

Новейший философский словарь содержит развернутое определение «синергетика». Она трактуется как современная теория самоорганизации, новое мировидение, связываемое с исследованием феноменов самоорганизации, нелинейности, неравновесности, глобальной эволюции, изучением процессов становления «порядка через хаос» (И. Пригожин), бифуркационных(раздвоение)изменений, необратимости времени, неустойчивости как основополагающей характеристики процессов эволюции» .[2]

В научной литературе широко применяется определение, предложенное Г. Хакеном. Синергетика, по его мнению, — это совокупный коллективный эффект взаимодействия большого числа подсистем, приводящий к образованию устойчивых структур и самоорганизации в сложных системах. [3]

Исходя из вышеизложенного, мы можем заключить, что предметом синергетики являются механизмы самоорганизации и поэтому её называют теорией самоорганизации.

Так, например, В. И. Андреев рассматривает «Педагогическую синергетику» как область педагогического знания, которая основывается на законах и закономерностях самоорганизации и саморазвития педагогических, то есть образовательно-воспитательных систем. Законы и принципы педагогической синергетики, сформулированные В. И. Андреевым открывают много новых возможностей и стратегий, которые актуальны в XXI в. [4].

По мнению В.И. Писаренко, что самоорганизация в педагогических системах это процесс или совокупность процессов, способствующих поддержанию ее оптимального функционирования, содействующих самодостраиванию, самовосстановлению и самоизменению данного системного образования, например, появление новых методов, приемов обучения.

Процесс самоорганизации представляет собой самопроизвольное возникновение, относительно устойчивое существование в открытых неравновесных системах новых

структур. Самоорганизация в педагогической системе предполагает наличие определенного взаимодействия между обучающим и обучающимся, что соответствует требованиям развития педагогической системы и вытекает из объективных предпосылок её самодвижения. Это позволяет понять и механизм развития педагогического процесса. Прочие важнейшие понятия синергетики также достаточно корректно соотносятся с понятиями традиционной педагогики.

В педагогической литературе нет четкого определения термина «педагогическая синергетика». Это объясняется тем, что педагогическая синергетика еще не вполне оформилась, не разработан полностью и понятийно-категориальный аппарат. Педагогическую синергетику рассматривают:

- в качестве синтеза многофакторных взаимодействий во встречных процессах воспитания и самовоспитания, образования и самообразования, обучения и самообучения, материализующихся в личности обучающихся;

- как область педагогического знания, которая основывается на законах и закономерностях синергетики – законах и закономерностях самоорганизации и саморазвития педагогических, т.е. образовательно-воспитательных, систем;

- как особую концепцию миропонимания, согласно которой мировой педагогический процесс есть открытая макросистема, где свободно перемещаются образовательно-воспитательные теории, направления.

Приоритетные составляющие использования идей синергетики в образовании выделяет В.А. Игнатова: дидактические аспекты адаптации идей синергетики в содержании образования; использование их в моделировании и прогнозировании развития образовательных систем; применение в управлении учебно-воспитательным процессом. [5].

Синергетика предполагает новый подход к педагогике: исходя из особенностей закономерностей синергетики в конкретных педагогических ситуациях можно выделить несколько важнейших проблем, стоящих перед педагогической наукой: В. А. Игнатова рассматривает:

- использование системно-синергетического подхода как методологической основы для анализа, прогнозирования, моделирования и проектирования учебно-воспитательного процесса – основного объекта педагогических исследований, изучение его противоречий и закономерностей;

- применение его в педагогической инноватике для научного обоснования методик и технологий обучения и воспитания;
- разработка дидактических аспектов адаптации его идей в содержании образования;
- использование этого подхода как основы интеграции на теоретическом и методологическом уровнях разнопредметных знаний;
- изучение динамики процесса формирования личностных качеств обучающихся и их познавательной деятельности;
- приложение идей синергетики к управлению учебно-воспитательным процессом;
- возможность применения математического аппарата синергетики в моделировании и прогнозировании развития образовательных систем на локальном, региональном, государственном и глобальном уровнях.

Среди перечисленных проблем в настоящий период наиболее полно охваченной является адаптация идей системно-синергетического подхода в содержании образования. [6].

По нашему мнению, синергетика в педагогике это новое научное направление стимулирующее профессиональные навыки педагога: самообразование, саморазвитие, самореализация ориентирующая на более глубокое постижение педагогических истин.

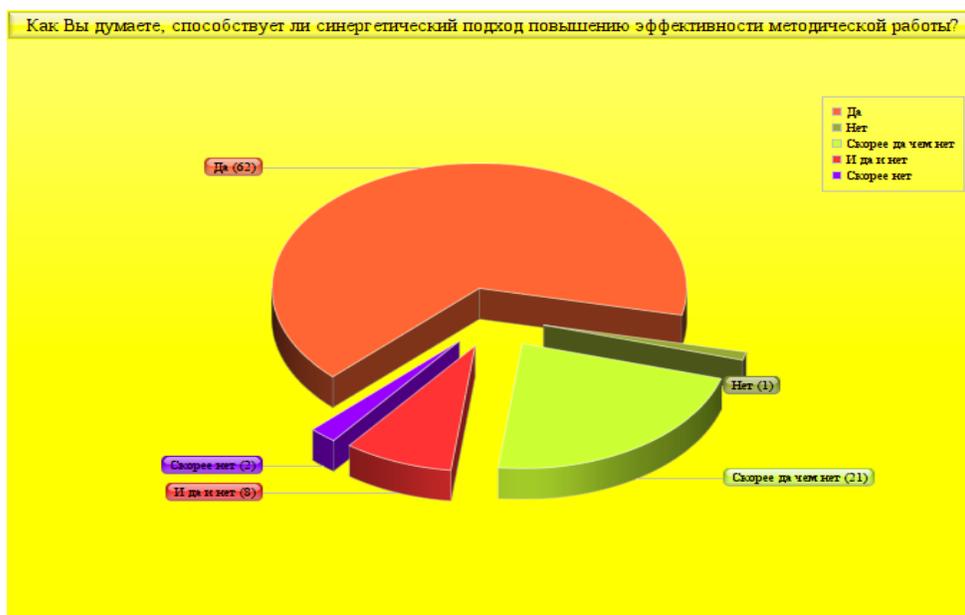
Таким образом, самообразование, самореализация, саморазвитие это профессиональные категории педагога, которые связаны с методической работой. Мы акцентировали внимание на методической работе в школе. Цель нашего исследования является: раскрыть идеи синергетики в педагогике, что позволит по новому понять эффективность учебно-воспитательной работы в педагогической деятельности.

Большая часть желающих принять участие в анкетировании – 23,6% – это опытные учителя со стажем работы более 25 лет; 22% – с педагогическим стажем более 20 лет, 17,5% – со стажем от 16 до 20 лет; 16,9% – проработали в школе от 11 до 15 лет; 14,3% – от 4 до 10 лет; 5,7% анкетированных – это учителя, работающие в школе первые три года.

73% респондента – педагоги в возрасте от 30 до 50 лет; 17% – от 50 до и старше, 10% – не старше 30 лет. Всего приняло участие 95 человек из разных образовательных учреждений.

Таким образом в рамках нашего научного исследования педагогам была представлена методика по проблеме «Синергетический подход к организации методической работы в школе».

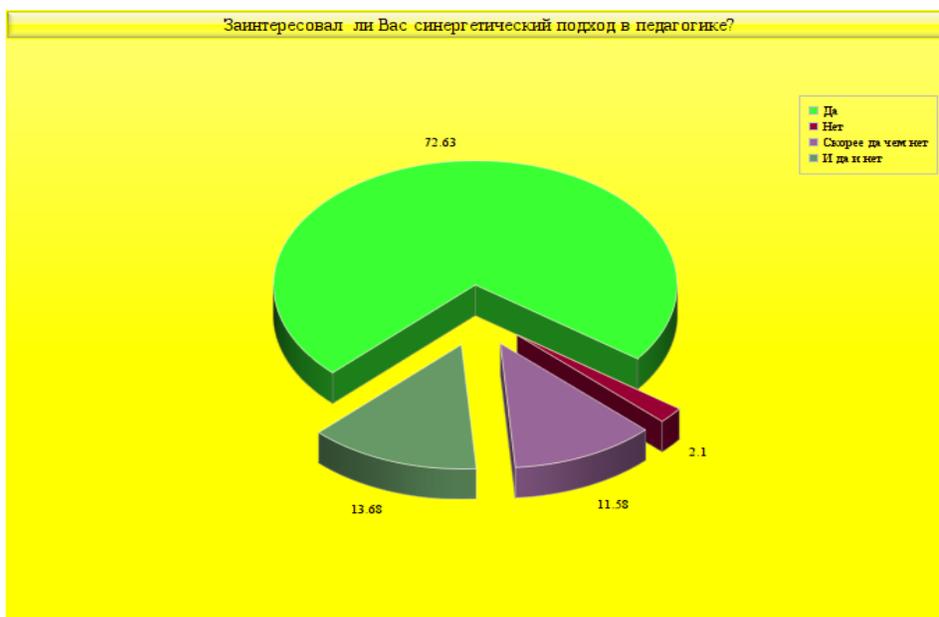
На этапе исследования выявлялся результат, который нашел отражение в диаграмме №1.



На вопрос: Как Вы думаете, способствует ли синергетический подход повышению эффективности методической работы? Составил: 62% - «да», 1% - «нет», 2% - «скорее чем нет», 8% - «и да и нет», 21% - «скорее да чем нет».

В результате было установлено, что 62% респондента считают что синергетический подход может повлиять на качество методической работы, а это: подготовка кадров, внедрение инновационных методов а также улучшение их профессионализма как педагога.

Следующие результаты анкетирования отражаются в диаграмме № 2.



Как показало анкетирование 73%-респондентов заинтересовал синергетическим подход, 2%-не заинтересовал, 11% ответили «скорее да чем нет» и 13%-«и да и нет». Анализируя результаты, здесь бесспорно, можно отметить интерес к идей и принципов теории самоорганизации в педагогике, хотя понятие синергетический подход все ещё не получило однозначного толкования в педагогике и находится лишь в стадии разработки.

Таким образом, обобщая мнения специалистов и исходя из задач нашего исследования, важно указать на то, что синергетика в науке открывает новые горизонты.

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**AUTHENTIC TEXTS IN THE STUDY OF LANGUAGES IN THE SPECIALTIES  
“SPACE ENGINEERING AND TECHNOLOGIES” AND “SPACE ENGINEERING”:  
SOURCES AND PRINCIPLES OF SELECTION**

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1

Changes in approaches to teaching language disciplines for special purposes in the conditions of a technical university in Kazakhstan are shown in the article. The principles of selecting authentic texts for the preparation of textbooks in English, Russian and Kazakh for the specialties “Space Engineering and Technology” and “Space Engineering” are considered. Modern sources of authentic texts are shown.

Keywords: authentic text, specialty language training, English, Russian, Kazakh, space technology and technology, space engineering, Kazakhstan, Central Asia.

Modern Kazakhstan is a dynamically developing country that has a serious impact on the economic, scientific and technological landscape of Central Asia. Here is the operating Baikonur spaceport, from where the first manned flight into space was made and where impressive space projects are currently being implemented.

Space technologies and space engineering are attractive specialties for Kazakhstani youth in technical universities. So, at the Almaty University of Power Engineering and Telecommunications named after Gumarbek Daukeev, the student contingent of the specialties "Space Engineering and Technology" and "Space Engineering" is significantly increasing from year to year almost in arithmetic progression: the 2017-2018 academic year - 14 students, 2018-2019 - 44, 2019-2020 - 56. This is just a single example illustrating the genuine interest and understanding of the prospects associated with this area of training.

The location of Kazakhstan is the heart of Eurasia, a crossroads of cultures. It is here that the linguistic influence of various civilizations is clearly visible. Today, the policy of trilingualism is

being implemented in Kazakhstan: three languages are used in the country - Kazakh as the state language, Russian as the language of interethnic communication, and English as the international language. Language policy has a tremendous impact on education in Kazakhstan. Therefore, the problems of teaching the three key languages of Kazakhstan have the highest priority, especially in the field of studying specialties related to high technologies.

The most important condition for the high-quality professional training of a specialist in engineering specialties is mastery of the language of the specialty and professional speech. Therefore, the teaching of such disciplines as "Professionally Oriented English," "Professional Russian" and "Professional Kazakh" is important. The future specialist should be able to quickly and with understanding read the scientific text in his professional profile and reproduce its general content in oral or written form. In addition, it is important to teach students the ability to freely talk on professional topics, the ability to create texts of different styles and genres within their professional competence. This is an important part of student preparation and the result of educating an educated specialist.

Until recently, Kazakhstani universities did not teach the scientific style and language of the specialty. This was not included in the list of professional skills of a specialist engineer. This problem was especially acute for students who mastered a specialty in a foreign language. Since September 2012, the disciplines "Professionally Oriented English Language", "Professional Russian Language", and "Professional Kazakh Language" were introduced. This was a timely step and markedly accelerated the pace of students mastering the language of the specialty.

For teachers, the emergence of these new academic disciplines has become a real challenge. They had to expand and deepen knowledge in the field of scientific and technical speech, to study some issues of fundamental importance for scientific communication: features of a scientific and technical text, features of grammar of a scientific and technical language, features of scientific and technical vocabulary and terminology, problems of phraseology of scientific and technical speech, etc. .d. We have seen from our own experience that the teaching of the language of technical specialties in a non-philological university has special specifics.

The main unit in teaching the specialty language is a scientific and technical text. This is a special kind of text with a number of fundamental lexical and semantic restrictions, with a characteristic grammar, with special compositional, genre features. Here is a different set of general language and proper textual means. And here we study not just a scientific text, but a text in which the language of the specialty is implemented. In this case, we give preference to authentic texts.

The problem of using an authentic text in the study of the specialty language occupies a special place in the linguodidactics of higher education, many researchers pay attention to this [1], [4]. Authentic specialized texts have an undeniable priority in teaching reading and listening. For the Gumarbek Daukeev Almaty University of Energy and Communications, this is of fundamental importance, since in 2016 the university has been implementing a trilingual education program, which assumes the mastery of the Kazakh, English and Russian languages as the languages of scientific and technical communication.

As authentic text we mean non-educational text from specialized sources (in this case, sources related to space engineering, space technology and technology), which can be reduced, but not adapted, to simplify the content and structure, taking into account the language training of students. The following is an example of an authentic academic text.

### Telescope

Based on written records, the invention of the telescope is credited to Hans Lippershey of the Netherlands. Galileo is the first person to use a telescope to look at astronomical objects and record his observations. Galileo built about 30 telescopes but used only 10 to observe the sky. Through his careful observations and dedication, Galileo found support for the Copernican view of the solar system.

A telescope collects light from a distant object and focuses it to form an image of the object. When the image is recorded, an observation is made. Originally, the only way to record the image was by hand — astronomers would make a drawing of what they saw through their telescopes. In the 1800's, photography was invented and astronomers experimented with making photographs through their telescopes. In the early 20th century, astronomers started specifically designing and building telescopes to record the image on photographic plates. The 1980's saw the invention of charge-coupled devices (CCDs) that allow the image to be recorded digitally. By the end of the 20th century, all research telescopes would use CCDs to make observations.

The factors used to determine the quality of a telescope are its ability to gather light, its resolution, its magnification, and the quality of its instruments. Of these, the magnification is the least important for research telescopes. The light-gathering power is a measure of how much light the telescope captures and is a function of the diameter of the primary mirror or lens. The bigger the lens or mirror, the more light the telescope can gather. Resolution is the ability to see detail. A telescope with high resolution can separate two closely spaced objects, whereas a telescope with low resolution will reveal a single object that may be misshaped. Using a different eyepiece can change

the magnification of today's backyard telescopes. As the magnification increases, the telescope focuses on increasingly smaller parts of the sky, reducing the field of view of the telescope. Research telescopes don't have eyepieces, so they can't change the magnification and therefore have a fixed field of view for the telescope. Researchers are more interested in the instruments that are used to record and analyze the light. A large telescope with high resolution and quality instruments is desirable for research.

Galileo mounted his telescope to minimize the shaking that results from holding the telescope. As technology progressed and telescope tubes became longer, mounting was necessary to support the weight of the telescope. The invention of photography and its application to telescopes made mounting more important.

Radio telescopes need to be big for two reasons. One reason is that there isn't much radio radiation reaching Earth, so big reflectors will capture more light. The second reason is the large wavelength of radio waves. To resolve closely spaced sources, the radio dish needs to be very large. One alternative to building very large radio telescopes is to build arrays of telescopes.

Solar telescopes are specialized to observe the hot, bright Sun, the nearest star to Earth. The heat and brightness of the Sun make it difficult to use equipment that was designed to look at dim sources of light like distant stars and nebulae. The effects of heating tend to change the shape of the mirrors and cause the air to move, which blurs the image

Telescopes are put into space to get above the distorting effects of Earth's atmosphere. For visible light, pockets of air in the atmosphere act like tiny lenses, bending the light from celestial objects in random, unpredictable directions. By placing a visible-light telescope above the atmosphere, these distortions are not encountered. Also, the atmosphere absorbs most other wavelengths of light. Placing a telescope in space is the only way to view celestial objects in those wavelengths [3].

Specialized text is the basic unit in language training for special purposes. For this, teachers of the department of language knowledge of our university prepare special text exercises. Their difference from phonetic, lexical and grammar exercises is that the emphasis is on the text as a result of speech activity. The linguistic basis of text exercises is the modern theory of the text, the theory of speech activity and the syntax of the text.

In the classroom, students work with ready-made authentic texts in the specialty: language analysis of the text, extraction of superphrase unities from the text and work with them, analysis of

language units found in the text in terms of their meaning and usage, transformation of the text (compression, progression), drawing up plans for text, retelling and written presentation of the text.

Students are also encouraged to independently compose a text, determine its topic, write essays, abstracts, abstracts, etc. Writing an essay of a certain type of text (description, narration, reasoning), style (popular science, actually scientific, scientific and educational) and genre (article, interview, etc.) may be suggested. Texts can be used spoken and written, for classroom or homework, for collective or individual work.

What principles of selection of authentic texts should be taken into account by teachers in the preparation of textbooks?

1. The principle of novelty involves the selection of texts that contain the latest scientific and technical information available for understanding by 1-2 year students of the specialties "Space Engineering and Technology" and "Space Engineering".

2. The principle of scientific nature involves the selection of texts that contain reliable scientific and technical information from reliable sources.

3. The principle of taking into account the influence of the student's native language and the level of non-native language proficiency, which involves the selection of authentic texts of the corresponding volume and level of lexical-grammatical and logical-compositional complexity.

4. The principle of accounting for intersubject communications, which involves the selection of texts that are in harmony with the material of the disciplines studied by students in parallel with the language course.

Sources of authentic texts that satisfy the above principles can be websites of organizations such as NASA [12], ESA [11], Roscosmos [9], the site of the Aerospace Committee of the Ministry of Digital Development, Defense and Aerospace Industry of the Republic of Kazakhstan [6], etc. The excellent sources turned out to be databases containing patents in the field of space development: Web of Science [8], Kazakhstan Patent Database [7] and others.

A special place is occupied by texts from books on space research: "Rockets and People," by B.E. Chertok, "A Brief History of Time" by Stephen Hawking, "The Village Closest to Space" by Oleg Akhmetov and others. The use of popular science and fiction, undoubtedly, increases students' motivation in mastering the future profession, serves to form cognitive interest. For instance: Life on Mars?

The position of Mars in the Solar System makes it a good candidate for the investigation of life outside of the Earth. It is the fourth of the four inner terrestrial planets from the Sun, the Earth

being the third, and the fact that it is relatively close to Earth suggests that there could be some similarities between the two. Such similarities would be encouraging to scientists looking for life on Mars, but in order to determine whether the conditions on Mars allow for the chemical evolution of life to take place it is logical to look back to a time and a place where we know that life did appear - the Earth 4,000 million years ago - and to compare these conditions with current conditions on Mars.

Mars is a rocky planet with a core radius of 1,700 km, less than half that of the Earth. The atmosphere is 95.32% carbon dioxide, but it is thin, with a mass 60 times smaller than the atmosphere on Earth. The thin atmosphere lessens the greenhouse effect on the planet as there are fewer carbon dioxide molecules to absorb the solar radiation which explains why the average surface temperature of Mars is minus 60 degrees C. It is not surprising, then, that there is no liquid water on Mars.

There are reasons to suspect similarities between the conditions on Mars now and the conditions on Earth 4,000 million years ago. The young sun emitted 20–30% less solar radiation than it does today, which would have greatly affected the Earth's temperature. This suggests that, like Mars today, the Earth would probably have been very cold at the surface, possibly even cold enough to cause ocean waters to freeze. Unlike Mars, however, the atmosphere of nitrogen and carbon dioxide was very thick on Earth 4,000 million years ago, meaning that there were more carbon dioxide molecules to absorb the solar radiation. This would have played an important role in increasing the Earth's temperature. In addition to the thick atmosphere, the interior of the Earth, being much hotter 4,000 million years ago, would have provided more heat to the Earth radiating out from within. This could have allowed for liquid water to exist on Earth underneath a layer of ice. This idea is an attractive one because the liquid water could have supported organic molecules and the layer of ice would have provided some protection from harmful UV radiation. Earth 4,000 million years ago, then, was a much more hospitable environment for life to develop than Mars today.

Although we have very set ideas about what is needed for chemical evolution to take place, if we found evidence of life on planets without these conditions we would have to re-think our ideas. The Viking landing mission to Mars in 1976 came close to this when three experiments designed to test for the presence of microbial organisms appeared to exhibit positive results on a planet with no liquid water. These positive results are generally thought to be caused by chemical reactions rather than life, because it was not thought possible for life to exist in such varied conditions. However, discoveries of organisms in extreme conditions on Earth have forced us to reconsider this view.

Nevertheless, as there was no evidence of organic matter whatsoever on Mars from the Viking mission, the likelihood of anything alive existing on Mars today appears remote.

There are, however, reasons to suspect that conditions on Mars in the past were more favourable for chemical evolution. Although there is no liquid water on Mars today, observations by the Mars Global Surveyor and Mars Odyssey suggest that markings on the Martian surface indicate the presence of a great deal of liquid water on Mars in the past. Scientists believe that Mars had a thick atmosphere 3,800 million years ago, and was therefore much warmer than today. This means it would be more likely to hold liquid water on its surface as the warmer temperatures would prevent water from freezing and the thick atmosphere would generate a greater atmospheric pressure to prevent all liquid water at the surface from vaporizing.

In conclusion, although conditions on Earth 4,000 million years ago were harsh, the key requirement for chemical evolution, liquid water, was present. This is not the case on Mars today. Organic material was also nowhere to be found on Mars, so it is fair to assume that it is very unlikely that chemical evolution is occurring on Mars today. We cannot, however, rule out the possibility until we have explored the planet much further. The indication that 3,800 million years ago Mars had a much more Earth-like climate suggests that the key to finding life on Mars lies in the planet's past rather than its present, and that this is a subject we should definitely investigate further [3].

Specialized magazines of relevant topics can also serve as a reliable source of authentic texts. So, the Russian scientific journal "Space Engineering and Technology" [13], the Kazakhstan scientific journal "Space Research and Technology" [14], scientific journals in English from the Web of Science database [8] have established themselves well.

To improve their listening skills, students are encouraged to regularly watch feature films and excerpts. It can be feature films and documentaries in the language being studied (Apollo 11 (2019), Time of the First (2017), Interstellar (2014), "When did they begin to study space in Kazakhstan?" (KazakhTV)), "Secrets of the Century: Baikonur" and others).

It should be noted that in the practice of studying the language of the specialty, listening to education as a component of the educational process for non-philological students was not a priority. Today it has become clear that listening is of key importance, especially if the language is studied outside the language environment; so, it is fundamentally important for learning professionally oriented English in Kazakhstan. The exercises used by teachers in the learning process contribute to the development of phonemic hearing and the mechanism of internal pronunciation, intonation hearing and the mechanism of segmentation of the speech chain, random access memory and

comprehension. Here it should be taken into account how many speakers in the audio material, the pace of their speech, whether there is an emphasis. The degree of involvement of the student is important: whether he is a participant or a “silent witness” of the conversation, whether the subject of the conversation is interesting to him, how deeply he should understand the content of what he heard. Understanding is influenced by the degree of complexity of the audio text in terms of vocabulary, grammar and content, extralinguistic realities. A huge role is played by visualization: what drawings, formulas, tables, diagrams, infographics, maps, video sequence were used (if this is video material).

In the process of listening to a student, a student should recognize keywords and catch the main idea, pay attention to non-verbal means of expressing meanings (facial expressions, gestures, intonation), associate the information received with his knowledge, and try to guess the meaning of inaudible or incomprehensible words in context, to formulate what he heard (in writing or in mind) into sentences understood by him. An example is the option of selective dictation:

Edwin Hubble

You are going to listen to American Radio Program. Today, Richard Rael and Tony Riggs tell the story of American astronomer Edwin Hubble. He changed our ideas about the universe and how it developed. For questions 1-10 complete the sentence:

- 1) Edwin Hubble made his most important discoveries in the \_\_\_\_.
- 2) Edwin Powell Hubble was born in \_\_\_\_ in Marshfield, Missouri.
- 3) Edwin Hubble went to Queen’s College at Oxford, England where he studied \_\_\_\_.
- 4) At the University of Chicago he studied \_\_\_\_.
- 5) Hubble watched the night sky with instruments at the university’s Yerkes Observatory. His research involved a major question astronomers could not answer: What are \_\_\_\_?
- 6) In his first observations from Mount Wilson, Hubble used a telescope with a mirror one hundred fifty-two centimeters across. He studied objects within our own \_\_\_\_\_. And he made an important discovery about nebulae.
- 7) An astronomer at Harvard College, Henrietta Leavitt, had discovered that these periods of brightness could be used to measure the star’s distance from Earth. Hubble made the measurements. They showed that the Andromeda nebula laid far \_\_\_\_\_ our Milky Way Galaxy.
- 8) Hubble proposed a system to describe galaxies by their \_\_\_\_\_. His system still is used today. He also showed that galaxies are similar in the kinds of bright objects they contain. All galaxies, he said, are related to each other, much as members of a family are related to each other.

9) The Doppler Effect explains changes in the length of light waves or sound waves as they move toward you or away from you. Light waves from an object speeding away from you will stretch into longer wavelengths. They appear red. Light waves from an object speeding toward you will have shorter wavelengths. They appear \_\_\_\_.

10) Observations of forty-six galaxies showed Hubble that the galaxies were traveling away from Earth. The observations also showed that the speed was linked directly to the galaxies' distance from Earth. Hubble discovered that the farther away a galaxy is, the greater its speed. This scientific rule is called “ \_\_\_\_.”

11) Hubble left the Mount Wilson Observatory during World War Two. He did research for the United States War Department. He returned after the war. Then, he spent much of his time planning a new, much larger telescope in southern California. The telescope was completed in nineteen forty-nine. It had a mirror \_\_\_\_ centimeters across. It was named after astronomer George Ellery Hale [3].

All of these points imply a serious preparation of the teacher for conducting classes with listening. A special place in the system of preparing students of a technical university for professional activity is occupied by teaching oral professional communication, which can take on dialogical or monological forms.

Monological speech in the professional sphere can be of two types: with a predetermined content (article, monograph, dissertation, lecture, etc.) and spontaneous (discussion, controversy). As a form of speech, a monologue correlates with reading and speaking. Here, students should understand the content of individual sentences in the process of reading the text at a normal pace (for example, from a slide), understand the content of a coherent text from the first presentation, quickly navigate the content and find what relates to the topic to be disclosed, write down the content of the text, transfer it content.

Listening in the field of professional communication involves the development of auditory-pronunciation skills, as professional speech is based not only on the read, but also on the listening material. At the university, one of the leading forms of education is a lecture. In the process of special lecture listening, the students work with mechanisms of probabilistic forecasting, internal pronunciation, semantic orientation, equivalent replacements, memory. That is why special guests are invited to our university, native speakers who give lectures and conduct conversations on professional topics. So, on November 5, 2019, at the Almaty University of Energy and Communications, the estate of Gumarbek Daukeev, as part of the Guest Lecture project, a lecture

was held on the topic “Baikonur's place in the development of the space industry in the Republic of Kazakhstan”. The lecture in Russian was conducted by the Deputy General Director - Director of the branch of the joint-stock company of the joint venture of the Baiterek space rocket complex at the Baikonur complex (2007-2010), general director of the Kazakhstan Space Technologies Scientific Technical Center (2010-2012 .) Taryanik Alexander Eduardovich. He spoke about the Baikonur complex, about the development of the space industry in Kazakhstan, about the purpose and composition of space rocket complexes, the situation on the global space services market, the need for exchange of experience, about his public work and much more. Space technologies are widely used and affect various sectors of the country's economy. Space systems allow solving problems in the field of agriculture, emergency situations, ecology, geodesy, nature management, defense, national security and other tasks. “Space technologies are widely used in various sectors of the country's economy. Space systems allow solving problems in the field of agriculture, emergency situations, ecology, geodesy, nature management, defense, national security and other tasks. All information received from space is used to increase the efficiency of various sectors of the economy. The digital revolution opens up new horizons for the development of technology, innovation in the industry challenges the younger generation, new opportunities open up for you and you don't need to be afraid of them, but you need to go forward and develop,” the guest lecture said. At the end of the meeting, each student had the opportunity to ask questions to the guest and take a photo as a keepsake. Students were actively interested in how rockets and systems are arranged to launch rockets for space purposes, how spacecraft are controlled, what are the prospects for applying the knowledge gained by students both at the Baikonur complex and other Kazcosmos organizations, as well as about the procedure for submitting their resumes for employment by profession.

An important role in teaching specialty languages is played by dialogs. The basic unit of dialogue is question-answer unity: a stimulating remark (question) and reaction to it (answer). A specific feature of the dialogue is its ellipticity and relative folding of syntactic means, i.e. the use of simple in structure sentences consisting of a small number of words. Usually these are short simple phrases that do not overload short-term memory and allow you to focus on the content side of the statement. In the process of working with dialogs, students develop the ability to react (respond) to replicas of a certain type, using the expression forms characteristic of the scientific style of speech, the ability to start a dialogue, engage in discussion of problems, using stylistically appropriate means of expression, the ability to expand the field of dialogue, including additional discussion questions. For this, our university provides students with interesting opportunities. So, the visit of NASA

astronaut Shannon Walker left a lasting impression. She visited the Almaty University of Energy and Communications named after Gumarbek Daukeev to participate in Space Week 2019 with the support of the U.S. Consulate General in Almaty. Doctors Shannon Walker is a member of the 2004 NASA Astronaut Group. She participated as a flight engineer on the 24/25 Expedition, a long-term mission aboard the ISS that was launched from Baikonur in 2010. Dr. Walker told our students how she became an astronaut, prepared for the flight, and lived for six months on the ISS, how she was selected by NASA in 2004. In 2010, she spent 163 days on the ISS as a flight engineer. Ms. Walker has a bachelor's degree in physics, a master's degree, and a Ph.D. in space physics. Walker is a member of the Aircraft and Pilot Owners Association and a ninety-ninth member of the international organization of female pilots. In his spare time, the astronaut is interested in cooking, football, jogging, strength training and hiking. Communication with the NASA astronaut took place in English.

The listed sources of scientific and technical texts were used by teachers of the language department in order to prepare an authentic textbook for study guides [2], [3], [5], which are productively used in the process of teaching English, Kazakh and Russian at the Almaty University of Power Engineering and Telecommunication named after Gumarbek Daukeev for specialties "Space Engineering and Technology" and "Space Engineering".

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## **South Asia-Central Asia Connectivity Challenge**

### **Linking via CPEC & CAREC Synergy**

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#### **ABSTRACT**

An excellent connectivity between Turkistan (present day's Central Asia) and Hindustan (South Asia of today) was provided by the olden times silk routes. History evidences that the trade caravans and military adventures were central activities of the region for years. A number of rulers and assailants to Hindustan hailed from Turkistan and Afghanistan. After the dissolution of erstwhile USSR and the independence of Central Asian Republics, Pakistan was well poised to establish active interaction with these states but certain peculiar circumstances at domestic, regional and global levels hindered the creation of any successful strategy towards Central Asia. However, the introduction of Belt and Road Initiative (BRI) with its flagship project of CPEC and the ongoing CAREC programme, offer an outstanding opportunity to translate the dream of South Asia-Central Asia connectivity into reality.

This study highlights the various challenges being faced by both the regions. It would attempt to answer the questions: how solutions to the various challenges faced by both South Asia and Central Asia lie in the synergy of CPEC and CAREC with a right mix of transport, ICT, trade, people, technology and energy? How complementarity of each other's comparative advantages leads to the regional connectivity? And what could be the impact of this regional connectivity in addressing political frictions? Interpretative research approach would be adopted, besides the use of realism and complex interdependence theories, in this paper.

**Keywords:** CPEC, South Asia, CAREC, Central Asia, Belt and Road Initiative

## INTRODUCTION

EU High Representative, Federica Mogherini explains *connectivity* as ‘the physical and non-physical infrastructure through which goods, services, ideas and people can flow unhindered’<sup>1</sup>. According to him, connectivity is a combination of ‘soft’ features (legal frameworks, procedures of customs and technical standards etc.) and ‘hard’ aspects (energy, rail and road corridors etc.). In this era of globalization, regional connectivity is vital to economic progress and sustainable development.

South Asia comprises countries like Pakistan, India, Bangladesh, Sri Lanka, Bhutan, Nepal, Maldives and Afghanistan that are present in the South Asian Association for Regional Cooperation (SAARC). Similarly, Central Asia consists of Kazakhstan, Uzbekistan, Kirghizstan, Tajikistan, Turkmenistan and Azerbaijan. For centuries, silk routes have been connecting South Asia and Central Asia. However, with the onset of maritime routes and the beginning of colonial rules both in South Asia (then Hindustan) and the Central Asia (then Turkistan), the well-known ‘Great Game’ got underway<sup>2</sup>. Also known as *Bolshaya Igra* in Russian, the Great Game was, in fact, very intense rivalry between the Russian and British empires in Central Asia from the start of 19<sup>th</sup> century to 1907 wherein the British colonists sought control of Central Asia to buffer their British India empire<sup>3</sup>. With these developments, connectivity of South Asia and Central Asia got a severe blow. However, the annals of history turned a new leaf in 1991-92 when the Central Asian Republics (CARs) became independent. This development brought yet another opportunity for both regions to revitalize old social, cultural, commercial and economic relations. But, the intimacy could not be achieved due to instability in Afghanistan and tense Indo-Pak relations.

The other major obstacle in this connectivity was poor intra-region and inter-region logistic infrastructure. World has shrunk into global village on account of transportation infrastructure. But, the paucity of funds with Central Asia and South Asia for laying down such transportation network is real hurdle to bridge the geographical gaps. In this situation, the multi-billion dollar

giant project Belt and Road Initiative (BRI) by China and the Central Asia Regional Economic (CAREC) mainly sponsored by the Asian Development Bank (ADB) have revived the prospects of connectivity between Central Asia and South Asia. Since times immemorial, the trade caravans continued to travel through the Silk route cities like Samarkand, Bukhara, Osh, Andijon, Peshawar, Delhi, Kashgar, Isfahan, Istanbul and so on<sup>4</sup>. Pakistan affords connection to all these areas in modern period also, involving the areas of energy, trade, tourism and transportation<sup>5</sup>.

China Pakistan Economic Corridor is a flagship project of China's mammoth infrastructural Belt and Road Initiative. After being launched in 2015, CPEC is already in its second phase of implementation with aggregate investment of over \$ 60 billion. Major attraction of CPEC is the Gowardar deep sea port that links through railway track to Chinese city Kashgar near the Khorgos Dryport of Kazakhstan. Hence, the landlocked CARs get the shortest possible access to the warm waters for maritime trade with South Asia, Middle East and Africa. Then, the CAREC comprises China, Kazakhstan, Uzbekistan, Kirgizstan, Turkmenistan, Tajikistan, Georgia, Afghanistan, Mongolia, Azerbaijan and Pakistan. Eleven member countries of CAREC are supported by six multilateral institutions as development partners including ADB, European Bank for Reconstruction and Development, IMF, Islamic Development Bank, UNDP and World Bank<sup>6</sup>. By September 2019, investments over \$ 35 billion have been attracted for deployment in multimodal transport networks, enhanced security, energy trade and foundation work for development of economic corridors. Road network of Pakistan connects to CAREC Corridor No.5 that facilitates much needed trade link between the Central Asian landlocked states and Pakistan's warm water Arabian Sea ports of Karachi and Gowardar<sup>7</sup>.

Hence, the basic objective of this study is to analyze the claim of development gurus that a natural synergy between CPEC and CAREC can be harnessed to boost regional connectivity between South Asia and Central Asia. Mr. Yang Xiao Hong, the Country Head ADB has also observed that "there is a lot of complementarity between CAREC and CPEC"<sup>8</sup>.

## METHODOLOGY

Research data utilized in this paper has been collected from a number of research articles, internet and libraries. Further, a lot of information has been directly collected and processed through observation and informal interviews during my study visits to various Central Asian places in the course of last four years on account of my continuous stay. Interpretive research method has been resorted ‘to derive a theory about the phenomenon of interest (*Regional connectivity through synergy of CPEC-CAREC*) from the observed data’<sup>9</sup>. Then, the study was based on realism research theory that is a scientific approach to the development of knowledge and encourages independence of reality from human mind<sup>10</sup>. Complex Interdependence theory has also been associated in this study with its features like (a) fortunes of states inextricably tied together in various aspects of their natural resources (b) shrinkage in the use of hard power (c) and emphasis on interdependence<sup>11-12</sup>. Under this theory, the study propounds how the energy deficient South Asia can benefit from the energy surplus Central Asia. And how the landlocked CARs can get access to the much needed cheaper maritime trade through Gowardar seaport?

## FINDINGS/RESULTS

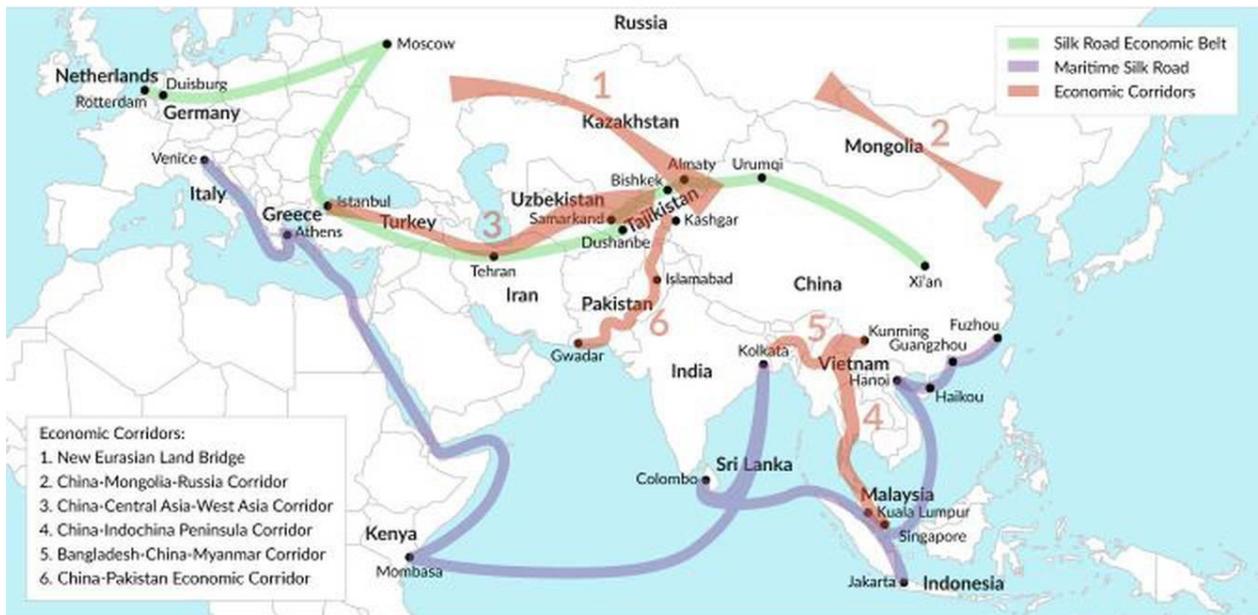
### **Belt and Road Initiative (BRI):**

President Xi Jinping announced mammoth “One Belt One Road” project, re-branded as Belt and Road Initiative, in 2013. Regional integration model of BRI, currently spread over 78 countries, connects South Asia, South East Asia, Africa, Europe, Central Asia, Russia and Middle East with six major economic corridors and infrastructural development of over USD 1 trillion<sup>13</sup>. Government authorities in Nur Sultan (Astana) regard Kazakhstan as buckle of the Belt and Road initiative<sup>14</sup>. The BRI project involves the development of huge network of railways, oil and gas pipelines, highways, sea ports, power grids and related infrastructure projects. First part of the BRI project is termed as Silk Road Economic Belt that is land based and is likely to connect China with Central Asia, Eastern Europe and Western Europe. The second part is called 21<sup>st</sup> Century

Maritime Silk Road that would be linking China's southern coast to the Mediterranean, Africa, South-East Asia and Central Asia<sup>15</sup>. Third part of BRI consists of the following six economic corridors:

- 1- The Eurasian Land Bridge connecting Western China to Western Russia
- 2- The China-Mongolia-Russia Corridor linking North China to Eastern Russia through Mongolia
- 3- The China-Central Asia-West Asia Corridor that connects Western China to Turkey via Central and West Asia
- 4- The China-Indochina Peninsula Corridor linking Southern China to Singapore through Indo-China
- 5- The Bangladesh-China-India-Myanmar Corridor connecting Southern China to India via Bangladesh and Myanmar
- 6- The China-Pakistan Economic Corridor that connects South Western China via Pakistan to Arabia sea routes

### China's Belt and Road Initiative



Source: <https://www.gisreportsonline.com>

### **China Pakistan Economic Corridor (CPEC):**

However, due to unique geo-strategic position, CPEC is regarded as flagship project bringing about regional connectivity through Gowardar port in Baluchistan province of Pakistan. So far, many states have expressed interest in joining CPEC project that has the potential to contribute to global economy besides economic and infrastructural development of Pakistan. Infrastructure of Pakistan is being rapidly upgraded and with the development of a number of modern transport networks, highly required energy projects and special economic zones, economic progress is visible. CPEC so far has attracted an investment over US\$ 60 billion and is scheduled to be completed by 2030 in four phases. After Early Harvest phase completed in 2018, the Short Term phase free economic zones are to be completed by the end of current year 2020. Then, the third phase called Medium Term is to be completed in 2025, followed by the last phase namely Long Term in 2030. During this span from 2015 to 2030, seven million new jobs are expected to be created. Fast paced economic reforms being carried out by the government of Pakistan along with CPEC activity is also being recognized globally. With business friendly policies, Pakistan has climbed up 28 places in the Ease of Doing Business rankings in 2019 to 108 position from 136 in previous year.

CPEC projects are being mostly financed by Exim Bank of China, Industrial & Commercial Bank of China (ICBC), China Development Bank and Asian Development Bank. Gates of immense economic opportunities are open, not only for Pakistan but the whole region of South Asia, China and Central Asia. Sixty percent Chinese oil imports are from the Middle East and the opening of Gowardar port reduces the marine distance from 16000 km to 5000 km and the duration from 45 days to 10 days. Once fully operative, per annum transit revenue from CPEC is estimated to be US\$ 70 billion. For new Maritime Silk Route, CPEC project would act as a bridge by linking around 3 billion people in Asia, Africa and Europe. Gowardar would serve as a gateway to CARs states along with Sri Lanka, Iran and Afghanistan to conduct marine trade and commerce<sup>16</sup>. Government of Pakistan has cognizance of the sensitivity of all CPEC stakeholders towards security of the project. Therefore, a security force was created comprising 15000 regular soldiers

of army as well as paramilitary forces.



Source: <http://cpecvela.com/cpec-map/>

**The Central Asia Regional Economic Cooperation (CAREC):**

CAREC is a project of eleven countries including China, Kazakhstan, Uzbekistan, Kirgizstan, Turkmenistan, Tajikistan, Georgia, Afghanistan, Mongolia, Azerbaijan and Pakistan besides development partners like Asian Development Bank as main sponsor, EBRD, IMF and UNDP etc. CAREC has the objective of economic growth and poverty alleviation with proclaimed vision of “Good Neighbors, Good Partners and Good Prospects”. After its inauguration in 2001, CAREC has attracted funds of over US\$ 35 billion by September 2019 that have been invested in transport networks, railways, enhanced energy trade, security, people to people contacts and development

of economic corridors. Projects under CAREC are of practical nature and aimed at the shared prosperity of the region<sup>17</sup>. Since 2001, CAREC has registered excellent progress as is evident from region-wide development and up-gradation of expressways, highways, railways and border crossing points. Then, the large scale improvements in regional border services, joint customs control and implementation of WTO Trade Facilitation Agreement are also notable achievements. After the installation and up-gradation of transmission lines, inauguration of CAREC Energy Investment Forum is a big measure. Since 2007, there are over 150 projects under CAREC that are involved in the construction of following six corridors:

<b>Corridor # 1: Europe-East Asia</b>
With a budget allocation of US\$ 4.54 billion, this corridor connects Russian Federation Countries via infrastructure developed in Kazakhstan and Kirghizstan. Its major segment is a road reconstruction project in Kazakhstan along the bordering area of China’s Xinxiang province. Xinxiang is a gateway to Eastern European products for Chinese and South Asian markets. The corridor consists of 13600 km roads, 12000 km railway track, 3 airports and a logistic center.
<b>Corridor # 2: Mediterranean-East Asia</b>
It links East Asian Countries to the Mediterranean states through Azerbaijan that is having International Sea Trade Port. This port is significant for transporting Chinese goods to Turkey. The corridor enables China to implement its “Go West” policy. Corridor # 2 railways of 9700 km and road network of 9900 km. Current budget allocation is US\$ 4.76 billion for this corridor.
<b>Corridor # 3: Russian Federation-Middle East and South Asia</b>
With a funding of US\$ 1.35 billion, the corridor aims at using entry point in Iran to enhance eastern Russia trade with Middle East. Central Asia would be natural beneficiary of this corridor, since its infrastructure would be linking both regions. Road construction activity in Kazakhstan and Tajikistan continue for this corridor. Roads of 6000 km and railways of 4800 km are part of this corridor.
<b>Corridor # 4: Russian Federation-East Asia</b>

<p>This corridor has funds allocation of US\$ 289 million and it focuses on improving trade ties between Russia and China through Magnolia. In order to make Mongolia a feasible economic intersection, CAREC has planned bus transport programme. Some 2400 km roads and 1100 km railways are also target of this corridor.</p>
<p><b>Corridor # 5: East Asia-Middle East and South Asia</b></p>
<p>Corridor # 5 uses Central Asia like a junction point for strengthening Chinese trade ties with South Asia, Middle East and Iran. Under this corridor, Pakistan provides a vital link to the landlocked countries of Central Asia by giving access to its warm water ports of Gowadar and Karachi on Arabian Sea. The corridor has budget of US\$ 922 million and would develop 3700 km roads and 2000 km railways.</p>
<p><b>Corridor # 6: Europe-Middle East Asia and South Asia</b></p>
<p>A budget of US\$ 3.84 million has been allocated for this corridor. CAREC envisages taking advantage of economic growth of Russia by linking it to Middle East through CARs. Corridor # 3 has focus on Siberia or Eastern part of Russia while the starting point of Corridor # 6 is situated in the Western part of Russia using Iran as entry point to Middle East market. The rout of this corridor would cover 10600 km roads and 7200 km railways in Central Asian states.</p>

CAREC corridors are going to build a bright global future of the region. Six corridors certainly have the potential to bring about seamless connectivity in moving people, goods and services faster; thus at reduced cost of crossing the borders. This would naturally bring about opportunities for job, business, commerce and trade in the CAREC region. So, building on the solid progress made so far, a new long term strategic framework called CAREC-2030 was launched that aligned the national strategies with the global development agenda. In the face of rapidly changing regional and global landscape, in fact, CAREC repositioned itself. It inspired the spirit of shared and sustainable development. In its expanded agenda, CAREC-2030 included the areas of trade, agriculture, human development, tourism, water and connectivity, with more focus on greener and sustainable solutions at regional level. CAREC Transport Strategy 2030 and CAREC Energy Strategy 2030 are also part of it. Five operational clusters included in CAREC 2030 strategy are (1) Economic and financial stability by aligning with national strategies and supporting SDGs and

COP21 (2) Trade, tourism and economic corridors by expanding operational priorities selectively  
(3) Infrastructure and connectivity by deepening policy dialogue based on CAREC's standing and ability to deliver quality knowledge services

(4) Agriculture and water by integrating the role of the private sector and civil society (5) Human development and increased regional cooperation in education and health<sup>18</sup>.

### **South Asia-Central Asia Connectivity Challenge:**

The biggest challenge faced by South Asia including countries like Pakistan, Afghanistan, India, Bangladesh and others is energy deficit besides problems of poverty, unemployment, inflation, security and climatic change etc. Similarly, key challenges inherent to the Central Asia are; its landlockedness denying cheaper sea trade and the geographically scattered population centers at huge distances. Uzbekistan is rather doubly landlocked for its neighboring countries too lacking access to sea. Unemployment, poverty, weak currencies, logistic issues, insufficient manufacturing and extreme weather etc. are other problems confronted by Central Asia economies. Solution to all these problems lies in the connectivity of South Asia and Central Asia. Now, the question arises how to cope with connectivity challenge of both the regions?

### **Economic Synergy of CPEC and CAREC:**

The above challenges faced by both Central Asia and South Asia can be coped with the economic synergy of Central Asia Regional Economic Cooperation (CAREC) and the China Pakistan Economic Corridor (CPEC). In fact, regional connectivity has prime importance in 21<sup>st</sup> century. It is interdependence based on each other's comparative advantages by developing corridors of prosperity with a right mix of transport, ICT, trade, people, technology and energy. Regional cooperations of CPEC and CAREC are largely representative of South Asia and Central Asia. Pakistan has a plan to develop a railway track from Gowardar to Afghanistan via Quetta and Chaman that would be linked to CAREC corridors.

If we analyze, in detail, the promise, potential, plans and projects under CPEC and CAREC, we can come to know the answers of questions posed by this study:

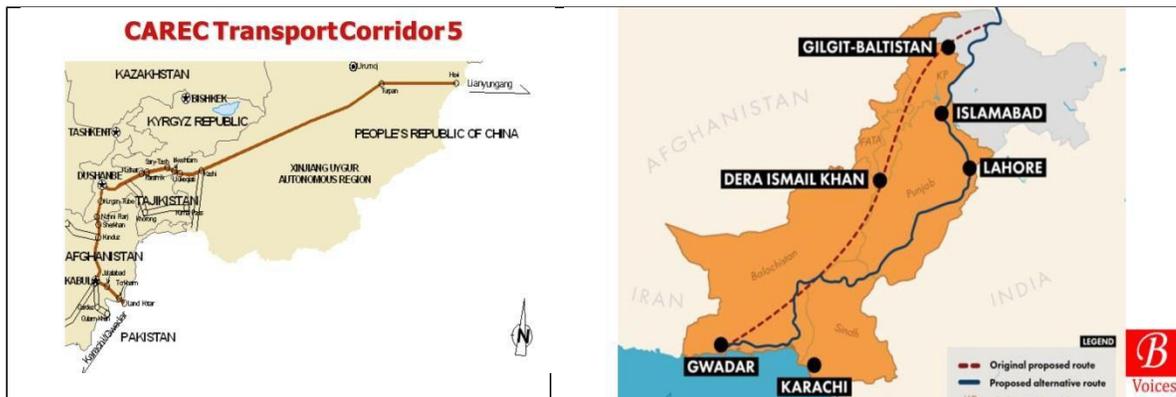
- **Energy Deficit vs Energy Surplus:** Central Asia has rich reservoirs of hydrocarbons.

Kazakhstan is gifted with crude oil of 30 billion barrel while Turkmenistan has natural gas of 265 trillion cubic meter<sup>19</sup>. Uzbekistan too has 66.2 trillion oil reserves. So, the surplus oil and gas of CARs can easily cater needs of energy deficit South Asia. CPEC would make available to Central Asian states a strategic opportunity to not only competitively diversify their hydrocarbon exports, but also to foster regional connectivity through trade and commerce<sup>20</sup>. BRI and CPEC can multiply the production as well as export of this gas to global markets. Chinese National Petroleum Company (CNPC) is engaged in discovering new Uzbek gas fields and constructing pipelines. This infrastructure would enable in meeting requirements of energy-starved China and energy-deficient Pakistan.

Mountainous Tajikistan and Kyrgyzstan have excess supply of hydel power during spring and summer with revenue generation potential. This situation has resulted in a regional cooperation move in the form of World Bank led CASA-1000 (Central Asia South Asia Electricity Transmission and Trade Project) launched to develop a power supply from Tajikistan and Kyrgyzstan exporting surplus hydel energy to Afghanistan and Pakistan, thus mutually beneficial to both the regions. CASA-1000 would further result in the creation of the Central Asia South Asia Regional Electricity Market (CASAREM) with the purpose of regional energy trade as a long term plan. Another ADB supported proposed project for energy transportation from Central Asia to Pakistan via Afghanistan is TUTAP (Turkmenistan, Uzbekistan, Tajikistan, Afghanistan and Pakistan).

- **Landlockedness vs Access to Sea:** Despite being located strategically at the crossroads of Asia and Europe, Central Asia is landlocked for not having coastlines. Among CAREC member countries, Kazakhstan, Uzbekistan, Kirghizstan, Tajikistan, Turkmenistan, Mongolia, and Azerbaijan are landlocked. Uzbekistan is doubly landlocked due to its landlocked neighbors. The Caspian Sea bordering Kazakhstan is itself landlocked and is largely frozen. Among the South Asian states, Afghanistan, Bhutan and Nepal are landlocked<sup>21</sup>. Such countries have to bear higher transportation and transit costs, since they don't have access to ports and global shipping operations for cheaper

international trade. Cost of being landlocked is very high because average GDP of the landlocked countries is barely 57% of the maritime neighbors and the cost of shipping is at least 10% greater. Once, it was said by President Nazarbayev that lack of access to sea could be detrimental to the country's economy<sup>22</sup>. It is evident from the below presented maps of CAREC Transport Corridor No.5 and CPEC that reflect how all landlocked countries of CAREC including those of Central Asia get approach to Gowadar seaport of Pakistan in Indian Ocean unlocking infinite trade opportunities with South Asia, Middle East, Africa and European markets.



- **Khorgos-Gowardar Axis:** Khorgos is a 450 hectare special economic zone also called ‘New Dubai’ spread across the border between China and Kazakhstan. Designed to be developed as the world’s biggest dry port, it has also railway track changing facility due to gauge difference between China and Kazakhstan. It facilitates rail cargo between China and Europe. Being situated on the boundary of Chinese western province Xinjiang, it is also connected to Kashger, another city of Xinjiang that too served as a major trading post of historical Silk Road. CPEC connects Kashger to the deep sea Gowadar in Indian Ocean. Chinese cargo from Kashger has already got underway to be transported overland to

Gowadar port. Through this connection in Xinjiang province, CAREC states would be ultimately linked to the warm waters of Gowadar. China-Europe Express Train is successfully running since 2011 and it links 48 cities in China and over 40 cities in fourteen European countries via Khorgos. In this way, Central Asia and South Asia would optimize Khorgos-Gowadar Axis for trade with Europe, Middle East, Africa and Pacific region.

- **Wakhan Corridor:** It is an area in north-eastern province Badakhshan in Afghanistan that appears like an irregularly shaped leaf attached by a thin stem to China, from a satellite view. Wakhan corridor is some 20 to 60 km wide and around 200 km long that served as ‘highway of trade and communication’ from early times, bringing revenues to the local chiefs who levied taxes on the trade caravans passing through the corridor<sup>23</sup>. Being strategically situated in Afghanistan, the corridor connects with Pakistan, China and Tajikistan. China is developing Wakhjir Pass in the Wakhan corridor. Then, a Wakhan-Chitral Route along the Chitral River is also being developed as an alternate route to Karakoram Highway to get to Peshawar and Gowadar<sup>24</sup>. So, the Wakhan Corridor is going to serve as a vital link for regional connectivity.
- **Regional Trade Potential:** Trade between CAREC and CPEC countries can provide real boost to the connectivity. A tremendous trade potential is already there. Exports of Pakistan to Central Asian states would include sports goods, scientific instruments, cutlery, sugar, cement, cotton, tea, spices, orange, mangoes, textile products, agricultural implements, handicrafts, medicines and mineral fertilizers etc. Similarly, imports from CARs could be wheat, natural gas, cotton, electricity, chemicals, iron, steel, oil products and food processing plants etc. However, non-availability of logistic support, avoidance of banking channel for international trade and instability in Afghanistan that is a key link between Central Asia and South Asia, are the major obstacles in realizing the true trade potential.
- **Theory of Complex Interdependence:** Pioneers of Theory of Complex Interdependence, Robert O Keohane and Joseph Nye state that international relations, now a days, are based on external determinants and dependence on each other. What matters is interconnectedness among states or among actors of other states<sup>25</sup>. European Union and ASEAN are good examples. Therefore, complex interdependence could be a big inspiration to reap the dividends of economic synergy between CPEC and CAREC.

- **Potential Pitfalls:** Certain geopolitical challenges in the subject connectivity may also be looming large. India does have reservations over CPEC, but it can have the shortest route to CARs through Gowardar and the resultant interdependence can resolve political conflicts. A recent video of conference SAARC nations on COVID-19 can have positive spillover in Indo-Pak ties. Talks about divergent Chinese and Russian versions of connectivity are also misleading. The Sino-Russian strategic partnership is evident reality. Heavy investment of China in the oil and gas resources of CARs and BRI projects paves way for Russia to get seamless access to the historically cherished warm waters. The connectivity between South Asia and Central Asia largely depends on stability in Afghanistan. However, just concluded US-Taliban peace deal is likely to bring stability in Afghanistan, since multi-ethnic Afghan elements are well aware of the heavy cost of conflict borne by them and the economic opportunities lying ahead. Until a stable peace in Afghanistan is restored, the Quadrilateral Traffic & Transit Agreement featuring China, Pakistan, Kirghizstan, Kazakhstan can be pursued actively that presents an alternate way to connect sea ports of Pakistan with China and Central Asia. There is no rivalry between Gowardar port and Chabahar port that are located at a distance of 75 km only. Iran itself wants to join CPEC by outstretching Chabahar port to CPEC. Gowardar has the capacity to handle heavy cargo ships for being a deep sea port. Deep sea ports have more credence to burgeoning trade via sea routes around the world<sup>26</sup>.

## **CONCLUSIONS**

In nutshell, the findings and results of this study indicate that the economic synergy of CPEC and CAREC with a right mix of transport, ICT, trade, people, technology and energy, has the potential to address the various problems and challenges faced by both Central Asia and South Asia. As analyzed above, dependence on each other's comparative advantages would lead to regional connectivity with sustained economic growth that is likely to solve inter-regional and intra-regional conflicts of all kinds.

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*The rate of return to foreign aid in North Korea*

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*Abstract:* A simple model suggests that under ideal conditions North Korea's economy could eventually grow at annual rates as high as 11% to 14.6%. The model derives a capital path over time that maximizes discounted consumption. The Euler equation implies that the social discount rate equals the marginal return to capital, which includes an increase in wages due to a gain in labor productivity.

Nations objecting to North Korea's nuclear buildup may offer it aid in exchange for reductions in its arms. If the aid enables its economy to expand, it may rely less on nuclear tests as bargaining chips for concessions that it once could not afford. Under ideal conditions, how rapidly could the economy grow in response to aid?

To estimate the potential rate of return to economic aid, we assume that the DPRK will invest the money in real capital to maximize real consumption. The rate of return has two components: The

direct return to another unit of capital, and the indirect return due to raising wages by increasing the productivity of labor.

This model of dynamic optimization draws upon Kamien and Schwartz (1991) and Yaari (1965).

We assume that North Korea will choose the capital path,  $K(t)$ , that maximizes discounted consumption over time  $t$  bounded by  $[0, T]$ :

$$\max \int_0^T e^{-rt} C(t) dt$$

### Equation 1

where  $C(t)$  is the consumption function and  $r$  is the discount rate reflecting the North Korean preference to consume now rather than later. For example, if  $r = 5\%$ , then the household would value immediate consumption at 5% more than consumption next year, given the same amount of consumption at either time. That is,  $U(C[t]) = 1.05 U(C[t+1])$ , where  $U$  is the utility function, time is measured in years, and  $C[t] = C[t+1]$ .

North Korea finances consumption and investment with wages and capital income:

$$C(t) + K'(t) + \delta K(t) = w[K(t)] + iK(t).$$

### Equation 2

In this equation, wages  $w$  and capital income  $iK(t)$  appear on the right-hand side. Wages  $w$  are a positive concave function of capital, since the capital stock  $K$  enables workers to produce more; and  $i$  is the rate of interest earned on the capital stock by expanding the economy directly. Wages and capital income finance consumption, investment, and replacement of depreciated capital, which appear on the left-hand side. Investment is the change over a short period in the capital stock, or the derivative  $K'(t) = dK/dt$ ; and  $\delta$  is the depreciation rate of the capital stock.

We assume that the initial value of capital is

$$K(0) = K_0$$

and that the terminal value of capital is

$$K(T) = K_T$$

where these two boundary conditions are finite.

Solving Equation 2 for consumption and inserting this into Equation 1 gives us the integrand

$$F(t) = e^{-rt}[(i - \delta)K(t) - K'(t) + w[K(t)]]$$

### Equation 3

The integrand makes clear that the solution to the optimization problem depends not only on the level of capital,  $K(t)$ , but also on its rate of change, investment  $K'(t)$ . The latter element makes the problem dynamic, requiring the Euler equation as a necessary condition. The idea behind this condition is to briefly delay producing another unit of capital when the value of this delay would exceed the value that the capital unit would have in production today. For example, the delay might avoid wear and tear of the capital. Since the marginal value of delay diminishes as we allocate more capital to the future, we will eventually arrive at an allocation where the benefit of creating another unit now just equals the benefit of delaying it. At this point, there is no point in delaying another unit. We will then have the optimal capital stock  $K(t)$  for all  $t$  in  $[0, T]$ .

The appendix derives the Euler condition, which is:

$$i - \delta + w'(K(t)) = r.$$

### Equation 4

In words: For each moment in time, provide the capital stock  $K(t)$  that so increases wages that the change in them  $w'$  -- added to the direct return to another unit of capital (net of depreciation),  $i - \delta$  - equals  $r$ , the social discount rate. The intuition is this: Because  $r$  measures our impatience to consume, it is the penalty incurred by delaying consumption in order to invest; and  $i - \delta + w'$  is the benefit gained by that delay. To maximize consumption, we should increase investment until the marginal gain in doing so (on the left-hand side of Equation 4) no longer exceeds the marginal cost (on the right-hand side of the equation). Both the gain and the cost are expressed in terms of real consumption.

In Equation 4, we can think of the left-hand side as the total marginal return to capital financed by foreign aid. According to the equation, to measure this return, we need only the social discount rate. This may be approximated by the interest rate on savings accounts that penalize early withdrawal, since the depositor will demand a rate of return that compensates her for foregoing immediate consumption.<sup>133</sup> The interest rate prevailing at time  $t = 0$  may be best since preferences at that time would determine the solution to the planning problem in Equation 1.

North Korean data for these proxies probably do not exist. But we may be able to argue that the North Korean economy would resemble the South Korean economy if the Democratic People's Republic of Korea develops the free markets implied in Chen Young Bang's policy proposals. We would assume that labor would be similar in the two countries and that the South would share its technology with the North. As a proxy for the social discount rate, we would use the interest rate paid on savings accounts in South Korea at the time when the South was at a level of economic development like North Korea's today, since the amount of development might determine the view of the average citizen toward future consumption. For this time, we select the mid- to late 1960s.<sup>134</sup>

As a proxy for the social discount rate, we use the discount rate charged by the central bank of South Korea, as reported by the Federal Reserve Bank of St. Louis in the United States. To smooth out temporary deviations, we use rates averaged over periods. The annual nominal rate averaged 25.3% over the months of January 1967 through December 1968 and 23.5% for January 1967 through December 1970.<sup>135</sup> Using World Bank (2018) estimates, the rate of consumer inflation was 10.7% and 12.5% for these periods. If the actual rate of inflation approximated the expected rate, as calculated through rational expectations, then the implied real interest rates were 14.6% and 11%.<sup>136</sup>

The left-hand side of Equation 4 gives the marginal rate of return to the capital stock. In the model, the stock determines the income of capital plus labor, or roughly GDP in our simplified analysis. So  $r$  may approximate a growth rate of GDP. Since it assumes that the country is following a capital

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<sup>133</sup> Another possible proxy for the social discount rate is the discount rate used by the government in benefit-cost analyses.

<sup>134</sup> The basis for the selection was this: Statistics Korea estimated that income per capita in North Korea in 2016 was equal to \$1,340. In South Korea, income per capita in 2016 U.S. dollars was about \$1,340 in 1967-68.

<sup>135</sup> We use these periods since inflation estimates are available for them.

<sup>136</sup> These estimates seem reasonable, given alternative calculations. Using monthly estimates, the discount rate of the central bank of South Korea was 20.4% for January 1964 through December 1968 and 29.1% for January 1964 through December 1970. The World Bank (2018) provides consumer inflation data only for 1967 forward. Using the inflation rates reported in the main text, for 1967-8 and 1967-70, yields estimates of the real interest rate of 9.7% and 16.6%. The rates that we use, 14.6% and 11%, are in the mid-range of these estimates.

path that maximizes discounted consumption over time, one may think of it as an upper bound on the potential growth rate. We caution that we calculated on the back of an envelope.

For comparison, Table 1 gives four- or five-year periods of peak growth in real GDP for five countries that have grown rapidly.<sup>137</sup> Our estimate of a high growth rate in North Korea is in the range of these peak rates.

<i>Country</i>	<i>Peak period</i>	<i>Growth rate</i>
China	1990-1995	11.60%
Japan	1960-1965	8.90%
Hong Kong	1961-1965	12.50%
South Korea	1965-1970	13.90%
Kazakhstan	2000-2005	9.90%

Table 1: Annual growth rates of real GDP.

Data source: World Bank (2018a).

*Reflections.* These estimates of the marginal rate of return to capital are merely indicative. They assume that North Korea accumulates capital in a way that maximizes national consumption, which is unrealistic at present. But they may be useful in suggesting an upper bound on feasible rates of economic growth. In the best circumstances, North Korea may be able to achieve growth rates comparable to those of other Asian economies in their golden years.

## *Appendix*

In general, the Euler equation is

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<sup>137</sup> These are continuously compounded growth rates calculated from the formula  $Y(t) = Y(0)e^{rt}$ , where  $r$  is the growth rate.

$$\frac{dF}{dK} = \frac{d^2F}{dK' dt}$$

### Equation 5

where  $F$  is the integrand and  $K$  is the control variable. In our model,

$$\frac{dF}{dK} = e^{-rt}[i - \delta + w'].$$

### Equation 6

That is, the marginal value of capital in terms of discounted consumption is the discounted total return to the capital stock.

Continuing,

$$\frac{dF}{dK'} = -e^{-rt}$$

### Equation 7

An interpretation: Holding the immediate capital stock constant, the marginal value of investment in terms of discounted consumption is negative, because investment entails an immediate delay in consumption.

The dynamic element is

$$\frac{d^2F}{dK' dt} = r e^{-rt}$$

### Equation 8

In words: After a brief period, the marginal value of investment increases because it raises the future stock of capital and thus increases future consumption.

Fit the pieces together by inserting Equations 6 and 8 into Equation 5. The Euler equation for our model is

$$e^{-rt}[i - \delta + w'] = r e^{-rt}$$

Dividing both sides by the common term gives us the condition in the main text, in Equation 4.

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## *The EU - Central Asia cooperation: developments and perspectives*

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### **Abstract**

The article is devoted to the politics of global powers in Central Asia, in particular, the EU's strategy in Central Asia. The main areas of the first Strategy of the EU for Central Asia, adopted in 1995 and entered into force in 1999, are considered. The EU's Strategy for Central Asia for 2007-2013, in particular, the main approaches of the EU's policy for Central Asia in 2014-2020 are presented. There is a brief analysis of the reasons for revising the Strategy in 2015. Revision of the EU policy on Central Asia and the adoption in May 2019 of the new Central Asia strategy aimed to promote regional cooperation through the support of Central Asian economic cooperation formats, Shanghai Cooperation Organization, Silk Road Economic Belt projects. The EU and Central Asia: a strategy for a new partnership, adopted in 2007 on its initiative, was adapted in 2019 to the EU doctrinal policy of the EU's foreign and defense policy EU Global Strategy. The EU's policy towards Central Asia in the context of the implementation of the projects within the Chinese Silk Road Economic Belt initiative /One Belt, One Road is on the global agenda. The major directions of the Central Asian policy of the EU in 2014-2020 are being identified. There is a short description of the perspectives of the new EU's Strategy for Central Asia for 2020-2025. Also, a consideration of the European strategy for Central Asia within the framework of the European Union Strategy for Europe and Asia - the Euro-Asian Network "Interaction between Europe and Asia - structural blocks for the EU strategy" is presented.

Keywords: Central Asia, EU, strategy, Chinese Silk Road Economic Belt initiative, One Belt, One Road, Russia, China Strategy for a new partnership European Union Strategy for Europe and Asia, Euro-Asian Network, Interaction between Europe and Asia, structural blocks for the EU strategy.

### **Introduction**

This book is devoted to cooperation of Central Asian states with European Union in the context of the European strategies towards Central Asia. The book presents opportunities for extending

strategic partnership of Central Asian states with EU. It also gives an analysis of the cooperation of these states in the contest of the interests of Central Asian states themselves, as well as the risks and security challenges in the region which put obstacles to the implementation of the EU Strategy in Central Asia. Particular attention is paid to the possibilities of cooperation of Central Asian states with regard to the implementation of the projects of the Silk Road Economic Belt initiative. The author has analyzed a number of promising formats and areas of cooperation that meet the interests of the EU and Central Asian states themselves. The article highlights the issues of economic interests and economic presence of EU in the region, and compares their capabilities in the field of security. Special attention is paid to the analysis of positive factors and possible risks and negative consequences of regional political and economic integration for the republic in the formats of the EU strategy in Central Asia.

### **Objective**

The article is aimed at analyzing existing formats of cooperation EU-CA and identifying the new possibilities of cooperation between the European Union and Central Asian countries, considering the interests of the EU in relation to the interests of the Central Asian states themselves, as well as security risks and challenges that are growing in the region and which may impede the implementation of the EU Strategy projects in Central Asia.

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3. Xi gives new impetus to Belt and Road Initiative - China Daily [www.chinadaily.com.cn](http://www.chinadaily.com.cn) ›
4. [www.europarl.europa.eu/the-secretary-general/en/directorates-general/expo](http://www.europarl.europa.eu/the-secretary-general/en/directorates-general/expo)
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### **Research methodology and data collection tool;**

The following research methods were used: monographic, comparative - historical, which made it possible to identify the origin and tendency of the subject of research; analytical: analysis of theoretical sources on the problem; study of the regulatory framework; comparison; generalization. In addition to the practical method, special research methods were used: collection of scientific sources, IVENT and SWOT analysis, situational analysis, logical research method.

Data analysis with critical thinking and discussion;

Data analysis involves a basic process that includes: describing; reflecting; analyzing; critiquing; reasoning; evaluating; formulating recommendations for further discussion.

### **Summary**

In 2015, the EU revised its Strategy for Central Asia for the fourth time since 2007. Despite the development of numerous cooperation mechanisms with the governments of the states of the region over the past decades, the EU is currently the player with the least influence in Central Asia. Under these conditions, the EU recognizes that it cannot and should not compete with Russia and China in

the EU region, and calls for focusing on specific projects in which specific results can be achieved. In addition to a limited number of economic projects and security cooperation, the EU should focus on education, continue to insist on improving the human rights situation and strengthen political and financial support for civil society. The revision of the EU policy on Central Asia was aimed to develop a dialogue with the states of Central Asia with the help of traditional and new mechanisms that allow expanding political contacts; to promote regional cooperation through the support of Central Asian economic cooperation formats, Shanghai Cooperation Organization, Silk Road Economic Belt projects.

## **Conclusion**

Despite the elaboration over the past decades of numerous mechanisms for cooperation with the governments of the states of the region, the EU currently is the player with the least influence in Central Asia. The deteriorating of the situation in Afghanistan, cooling of relations between Russia and the EU in the conditions of the Ukrainian crisis led to significant declining of the EU Central Asian strategy since 2012. Under these conditions, the EU recognized that it should not compete with Russia and China in the region. So, the European Union called for concentrating on specific projects in which concrete results can be achieved.

New EU Strategy for Central Asia will take into account the new geopolitical realities, the changing needs and opportunities of the countries of Central Asia. One of the main goals of the new strategy is to penetrate the EU into infrastructure development projects in the region, including the Chinese initiative One Belt, One Road in order to: monitor the implementation of this Chinese initiative; weaken Chinese economic expansion into the countries of the region; reduce the debt dependence of Central Asian countries on Chinese investment.

The EU insists on the need for multilateral formats to discuss the initiative of SREB, transparency and publicity of the proposed projects. It is obvious that the EU tries to manage the SREB in order to maximize the institutionalization of all formats of cooperation, financing procedures and negotiation processes within the project.

For the purposes of building regional partnership Central Asian states have a strong interest in maintaining friendly ties with the European Union, that should create meaningful opportunities regional cooperation and for advancing mutual interests. The special attention should be paid to the positive factors and the possible risks and negative consequences of regional political and economic

integration for the republic in the formats of the European Union under conditions of the U.S. and EU sanctions against Russia and trade war between the U.S. and China.

## **Recommendations**

The new EU strategy aimed at stable socio-economic development will prevent the emergence of “fragile” or failed states in the region, which usually serve as a fertile ground for the formation of “terrorist enclaves”. To solve these problems, the search for the EU of various forms of cooperation is extremely important. The implementation of the new EU strategy allows creating new favorable conditions for the development of the European-Central Asian partnership. In this regard, it seems possible to take a number of steps towards the development of cooperation between the EU and Central Asian countries.

1. Strengthening joint work on private entrepreneurship, small and medium-sized businesses.
2. Joint developing new mechanisms with the EU that will help attract private European capital to various projects in Central Asia.
3. Using the experience of the European Union to effectively diversify the economies of Central Asian countries and create high-tech industries in demand.
4. Expanding the application of new practices in digitalization, in environmental issues, water, human rights and the rule of law.
5. Extending joint programs for support for Afghanistan stabilization.
6. Promoting formation of cooperation formats aimed at integrating the EU Strategy for Central Asia and the SREB, to coordinate cooperation through mechanisms for coordinating investment, trade, industrial and transport policies, labor market regulation policies, etc.
7. Expanding cooperation between the EU and the countries of the region in the fields of science, education and high technologies on the basis of universities in the EU and China with the participation of partners from the EAEU and SCO member states.

In 2015, the European Union revised its Central Asia Strategy for the fourth time since 2007. The major directions of the Central Asian policy of the EU in 2014-2020 were identified as follows: access to natural resources, mostly oil of the Republic of Kazakhstan and natural gas from Tajikistan; reduction of dependence on Russia as an exporter and transit of hydrocarbons, diversification of energy supplies to EU countries; creation of a security belt against threats of terrorism, extremism

and drug trafficking due to the conflict in Afghanistan and the EU's desire for stability and security of the states around; EU enlargement in 2004 and 2007 has brought the EU's borders closer to Central Asia. [1]

The key factor of the revision was the emergence of the Chinese Silk Road Economic Belt initiative /One Belt, One Road, announced by President Xi Jinping in 2013, which assumes a complex development of the transport and infrastructural connectivity of the Eurasian region. [2]

The Directorate-General for Foreign Policy / External Policies, acknowledged in this report, that despite the elaboration over the past decades of numerous mechanisms for cooperation with the governments of the states of the region, the EU currently is the player with the least influence in Central Asia. The deteriorating of the situation in Afghanistan, cooling of relations between Russia and the EU in the conditions of the Ukrainian crisis led to significant declining of the EU Central Asian strategy since 2012. Moreover, Central Asia is not among the geopolitical priorities of the European Union, EU is not an influential player in the field of security and its actions have almost no results. EU lacks a common understanding of EU energy security. Internal disagreements weaken the EU's foreign policy positions. According to analysts of the European Commission, the region is becoming increasingly instable, the previously projected reorientation of the resources of the region, primarily gas, has not yet taken place. It is noteworthy that despite of the Turkmen huge gas capabilities, there is still no representation of the European delegation in Turkmenistan. The trade turnover of European states with the region is minimal, with the possible exception of Kazakhstan. Corruption hinders economic development and dilutes a significant part of international economic assistance to the region, the human rights situation does not change for the better. [3]

The reduction of the European attention to the region was demonstrated in 2014, when the EU abolished the position of Special Representative for Central Asia. However, in 2015 it was successfully reintroduced. [4]

Under these conditions, the EU recognized that it should not compete with Russia and China in the region. So, the European Union called for concentrating on specific projects in which concrete results can be achieved. In addition to a limited number of economic and security projects, the EU should focus on education, continue to insist on improving the human rights situation and strengthen political and financial support for civil society. EU will focus on long-term rather than short-term strategies and results.

Security problem, one of the most acute for the region, seriously worries the EU in connection with the problem of terrorism and participation of citizens of the Central Asian states in military

operations of the Islamic State and Al-Qaeda. In 2013-2014, the EU tried to establish a High-level Security Dialogue, but the attempt failed because this initiative was not supported by the states of the region at all. [5]

In 2015, security issues were discussed at a high-level meeting in Tajikistan, but Turkmenistan and Uzbekistan again did not support this initiative. [6]

Revision of the EU policy on Central Asia was aimed to develop a dialogue with the states of Central Asia with the help of traditional and new mechanisms that allow expanding political contacts; to promote regional cooperation through the support of Central Asian economic cooperation formats, Shanghai Cooperation Organization, Silk Road Economic Belt projects.

The main areas of the first Strategy of the EU for Central Asia, adopted in 1995 and entered into force in 1999, traditionally were:

- Economics: financing projects in various areas: energy efficiency and environmental protection, information technology, services (European Bank for Reconstruction and Development, European Parliament, German Development Bank KfW and German Society for International Cooperation);

- Security: The EU, with the assistance of the United Nations, implements the BOMCA (Border Management) and CADAP (Anti-Trafficking) programs. The projects envisage institutional reform, a number of infrastructure initiatives and professional training of the Kyrgyz border service employees;

- Cooperation in the humanitarian sphere: German NGO's, Hanns Seidel Foundation, Friedrich Ebert Foundation, Senior Experts Service, German Association of People's Universities, Deutsche Welle Academy, Goethe Institute, Danish Church Aid Foundation, Adilet Law Clinic;

- Cooperation in the field of human rights activities: within the framework of the European EIDHR program - human rights dialogues, seminars on civil society issues;

- Cooperation in the field of education: European educational projects (Tempus, Erasmus, German DAAD).

Financial aid. In 1991-2004 the EU's financial assistance to the countries of Central Asia amounted to 1,132 billion euro. The funds were used to ensure food security in the form of humanitarian assistance, to combat poverty, support for education and the creation of a civil society. In 2007-2013 the amount of financial aid decreased to 750 million euro. Financing for 2014-2020 sharply increased up to 1,5 billion euro.

The EU Strategy for Central Asia for 2007-2013 was oriented mostly to the following areas:

- construction of a rule-of-law state, development of education, including vocational training, cooperation in the energy field and transfer of experience of regional cooperation;
- promotion of human rights, development of democracy and education, deeper integration of the countries of Central Asia into the world trade and economic system, assistance in accession to the WTO;
- more active cooperation with Kyrgyzstan, Tajikistan and Uzbekistan in solving energy problems of special importance for these countries due to socio-economic needs, complex interstate relations and instability of energy supply.

Financial aid of 750 million euro for Central Asia the period 2007-2013 was allocated through development assistance instruments or Development Cooperation Instrument for, of which one third was distributed at the regional level, and two-thirds - through bilateral channels.

The main EU program to promote border security is Border Management Program in Central Asia / BOMCA. For the next three years (since 2015) the EU have allocated one million euro for the BOMCA five projects. [7]

However, there is a difference in priorities: the countries of the region are interested in obtaining equipment, while the EU would like to invest more in staff training. [8]

The EU Central Asia Drug Action Program / CADAP was transferred from UNDP to the German Development Agency (GTZ). Thus, the EU is trying to involve more member states in specific work in the region. In the near future, obviously, the EU's cooperation with the Central Asian security states will remain very limited and will include the continuation of the work of the CADAP program and a number of projects on conflict prevention. [9]

The European Union actively advocates for human rights in Central Asia. There are instruments: the EU "Civil Society Seminars", as well as the European Instrument for Democracy and Human Rights (EIDHR), which provides funding for organizations whose activities are related with the protection of human rights. Also, the European Endowment for Democracy is stepping up its activity in the region. The EU intends to further pragmatically link the issues of economic assistance and humanitarian cooperation with political conditions and support for political changes in Kyrgyzstan and Tajikistan.

Regional Program for sustainable development and security included:

The EU- Central Asia "Flagship Initiatives": the enhanced and sustained policy dialogue between the EU and Central Asia;

The Bologna and Torino process, ERASMUS + program: modernization of education systems;

The EU Water Initiative for Eastern Europe, Caucasus and Central Asia: integrated water resources management;

The New Silk Road: energy and transport infrastructure connections between Europe and Central Asia;

The INOGATE and TRACECA programs: energy and transport;

The Prague Process: migration issues;

The Council of Europe's own «Policy towards neighboring regions»: human rights and the rule of law;

Investment Facility for Central Asia (IFCA) and the European Investment Bank: investments - annual EIB loans: 250-300 million euro.

At the regional level, the EU have three programs:

- the rule of law (the program was developed under the leadership of France and Germany);
- the problem of access to water and the environment (led by Italy and Romania);
- education (no EU country wanted to lead this program).

The Agreement on Enhanced Partnership and Cooperation between the European Union and the Republic of Kazakhstan, signed on December 21, 2015 and aimed at a significant deepening of trade and economic ties, also have same goal of supporting democratic reforms in Kazakhstan. Kazakhstan was the first country in Central Asia to sign a second-generation agreement with the European Union, which is the main trade and investment partner of the republic. [10]

Strategy for a new partnership EU- Central Asia for 2014-2020 contained differentiated approach of the EU, taking into account the differences in the development of five countries of the region. European Union as a biggest donor, allocated more than 1,5 billion euro for the implementation of projects in the field of the rule of law and law, education, rural development in Central Asian republics from 2014 to 2020. The EU recognized Kazakhstan as a country that does not need development assistance since 2017 and almost doubled the funding for Uzbekistan. This assistance had been spent for the following projects: in Kyrgyzstan – promotion of the rule of law, education and development of rural areas; in Uzbekistan - development of rural areas; in Turkmenistan - education.

The European Union strengthened European regional investment instruments: Investment Facility for Central Asia (IFCA) aimed at supporting private sector development, especially small and medium-sized enterprises, and focusing on new promising areas including renewable energy and the agriculture sector.

Investment facility for Central Asia / IFCA provides its support through: investment grants; technical assistance; risk capital and other risk sharing instruments. IFCA sets up partnerships: European Finance Institutions such as AFD, CDP/SIMEST, EBRD, EIB or KfW, Regional Development Banks (such as the ADB) as well as the WB, partner countries and beneficiary institutions in Central Asia.

During 2010-2015 22 projects were approved for grant financing of 145 million euro, representing total financing from the Finance Institutions of approximately 553 million euro and total investment budget of approximately 830 million euro.

The European Investment Bank (EIB) expanded its activity to develop certain projects of connectivity including CASA-1000, followed by digital CASA. Three platforms for regional cooperation have been strengthened to enforce the rule of law, educational initiatives and water initiatives. Cooperation between scientific and educational institutions was aimed to create good ground for universities in Central Asia to move to high standards of quality. Obviously, the states themselves are not interested in dialogue within the framework of the first program, the problems of water use are also extremely sensitive and cause tension between the parties. In the field of environmental remediation there was a plan for addressing problems of uranium tailings. EU have put 16 million euro into this account and additional 15 million euro for disaster reduction and disaster mitigation preparedness.

During the process of re-evaluation of these programs EU understood that it is possible to influence the development of the region only through education. In such case only one successful Erasmus program was not enough. Probably, the EU in the near future will increase the programs of internships and exchanges. In addition, a large number of European funds and organizations that finance scientific research, applied projects and educational programs continue to operate in the region.

In general, EU in recent years has been determined to build relations with the states of the region rather at a bilateral rather than a multilateral format. Therefore, there is virtually no talk about the existence of the C5 + 1 format in relation to the EU and Central Asia. However, at present, there is a significant transformation of the European approach. Despite the fact that the EU is currently more focused on domestic challenges, Brussels is gradually developing its own strategy for the Eurasian region. This thesis was confirmed in the report of the Special Representative of the European Union for Central Asia Peter Burian (February 2018) and the joint report of Friedrich Ebert Foundation

(Germany) and Stockholm Peace Research Institute (SIPRI, Sweden) the Silk Road Economic Belt: EU-PRC cooperation projects and implications for security. [11]

The implementation of the projects within the Chinese Silk Road Economic Belt initiative /One Belt, One Road caused the European anxiety about the future of the region Central Asia. China provides huge financial resources of the Silk Road Fund, the Asian Development Bank, the Asian Bank for Infrastructure Investments for the implementation of this initiative. The intention of China to outsource the excess labor and construction capacities within the projects of the Silk Road Economic Belt demonstrates to the international community the firm determination of China to implement this initiative.

In these circumstances, the EU is concerned about the mechanisms of realization. Europeans are nervous because of the scarcity of information about specific economic projects, which involves the Silk Road Economic Belt initiative (SREB). Therefore, the EU insists on the need for multilateral formats to discuss the initiative of SREB, transparency and publicity of the proposed projects. The EU also insists on the full compliancy of the projects with the UN Sustainable Development Goals, interaction of all stakeholders on the platforms of the OSCE, SCO, CICA, and multilateral coordination of all key regional donors and financial institutions. It is obvious that the EU tries to manage the SREB in order to maximize the institutionalization of all formats of cooperation, financing procedures and negotiation processes within the project.

EU supposed that in the conditions of existing significant sector of the “gray economy”, informal practices and non-transparent decisions both in politics and in the economy, the bilateral negotiations of elites and easy access to financial flows from China may cause negative consequences. There are: increased corruption, further social stratification and the growth of social tensions in societies where the young population, most affected by recruiters of extremist organizations, is already predominant.

Another important factor: ensuring economic development is impossible without the development of human capital. It would seem that at the level of rhetoric this is understood not only in the EU, but also in China. However, no concrete proposals have been made yet in the sphere of education, professional development and professional training from the Chinese side. This means that there is a possibility of developing a scenario when China is building an infrastructure for Chinese money by Chinese labor, the benefits of using this infrastructure will be received by the local government, and no changes for the local population.

Another danger is the formation of a strong economic dependence of the states of the region on China. Chinese loans rather cheap and in the long term may turn out to be impossible for the Central Asian economies. This is likely to entail a political orientation of the Central Asian states on China. European Union, which so long tried to "tear off" Central Asia from Russia after the collapse of the USSR, obviously, would not like to completely devolve the region into the power of China. And most importantly, the EU does not see almost no benefit from the Chinese initiative for Afghanistan. Indeed, the southern route of the BRI, overlooking the ports of Pakistan, the Economic Corridor of China-Pakistan, does not promise big benefits to Afghanistan. This means that the severity of the problem of Afghanistan's economic development is likely to remain "on the shoulders" of the U.S., the EU, and the Central Asian states themselves.

The European Union has been fundamentally changing the conceptual content of politics in Central Asia, trying to increase its presence in the Caspian region, especially, in energy and transport sphere. Currently, the European Union is working to create the Southern Gas Corridor, through which Caspian natural gas will be delivered directly to Europe. In addition, Europe is interested in launching Trans-Caspian transport corridors to deliver goods from Asian countries, primarily China, to the West. This corridor includes such projects as the Trans-Caspian International Transport Route, TRACECA, Lazurite Corridor, Caspian Sea - Black Sea, South-West corridors, etc.

The European Union in 2019 is going to present a new strategy for cooperation with the states of Central Asia. This strategy includes sustainable development and the implementation of the Sustainable Development Agenda 2030, making complex investments in the infrastructure of the region.

This strategy is also grounded on the Expanded Partnership and Cooperation Agreement with Kazakhstan (12.21.2015). Similar EU agreements with other Central Asian countries, except Turkmenistan, are in the process of preparation. Bilateral cooperation of countries should be adapted to the specific situation.

The EU strategy is based on an integrated approach to financing investments, introduced by the European Fund for Strategic Investments. The strategy provides three bases for establishing effective linkages:

- creation of transport, energy, digital and human connections;
- development of partnerships with Asian countries;
- promoting sustainable financing through the use of a variety of financial instruments.

The European strategy for Central Asia was developed within the framework of the European Union Strategy for Europe and Asia - the Euro-Asian Network “Interaction between Europe and Asia - structural blocks for the EU strategy”. The document considers not only Central Asia, but the entire Asian region. The EU should expand its dialogue on sustainable communication with other partners, including Afghanistan, India, Indonesia, Iran, Pakistan, Russia, the Republic of Korea, Turkey, Central Asian countries, as well as Australia and the United States. [12]

The main directions of the Strategy in Asia are derived from the EU Global Strategy’s main priorities: defense and security; enhancing sustainability and an integrated approach; strengthening internal and external relations; updating existing strategies and preparing new, strengthening mechanisms of public diplomacy.

This strategy aims to form a network - transport, energy and digital connectivity. In the center of this strategy – cyber-security, international partnership and cooperation in the field of education, research, innovation, culture and sports, high investments in sustainable communication, new and innovative financing occupy an important place. Connectivity, inter-operability contributes to economic growth and job creation, global competitiveness and trade, and the movement of people, goods, and services between Europe and Asia.

The EU works in three main areas: first, by promoting effective communications and networks between Europe and Asia through priority transport corridors, digital communications and energy cooperation; second, by establishing partnerships to ensure communication based on generally accepted rules and standards that allow better control of the flow of goods, people, capital and services; third, by helping to address significant investment gaps by improving resource mobilization, enhancing the use of EU financial resources, and strengthening international partnerships.

The EU at the regional level will use the experience of integrating various structures of regional cooperation, for example, ASEAN countries, the Asian-European dialogue. The EU will pool financial resources from international financial institutions, multilateral development banks and the private sector. The need for Asian countries to invest in infrastructure is 1,3 trillion euro per year. [13]

Thus, the strategy of the European Union in Asia will be implemented in parallel and competes with the Chinese program One Belt, One Road both in land, and in sea and air communications. The new EU Strategy for Central Asia 2020-2025 reflects fears of the EU regarding threats from SREB: the scarcity of information on specific economic projects SREB: multilateral formats are needed to

discuss this initiative, maximum transparency and publicity. The EU will try to link the SREB to the hands and feet in order to maximize the institutionalization of all cooperation formats, financing procedures and negotiation processes within the project.

The new EU Strategy for Central Asia will take into account the new geopolitical realities, the changing needs and opportunities of the countries of Central Asia. One of the main goals of the new strategy is to penetrate the EU into infrastructure development projects in the region, including the Chinese initiative One Belt, One Road in order to: monitor the implementation of this Chinese initiative; weaken Chinese economic expansion into the countries of the region; reduce the debt dependence of Central Asian countries on Chinese investment.

There is an understanding in the EU that it is impossible to resist the implementation of China's initiatives, so the Union will have to build in the current situation in order to then try to influence its development. EU will try to create the most institutionalized and multilateral format for the implementation of the SREB initiative in order to reduce potential risks and maximize the benefits. Obviously, this will entail strengthening the interaction of the EU with the countries of Central Asia, which are the key link of transport projects on the way from China to the EU. Probably, one of the formats of this interaction will be the work of the European funds, expert structures and international organizations with the expert community of Central Asian countries, and possibly the creation of bilateral and multilateral, taking into account the specifics of relations between the countries of the region among themselves, platforms for discussing China's initiative and the forthcoming to the implementation of projects. In general, the objectives of the EU Strategy as follows: creating of a common security zone for Europe and Asia; ensuring security through the development of the states of the region and the formation of a common economic Eurasian space; conjugating of the EU projects with the Euro-Asian Economic Union and the initiative Silk Road Economic Belt.

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## **ADVANCED ANNOTATION**

**1. Project theme: Virtual Media Library: Opportunities for Preserving and Developing the Cultural Heritage of Kazakhstan.**

**2. Abstract (abstract) of the project.**

**Project Summary:** New approaches in education require new methods in working with information. Earlier, for the needs of students and teachers, a library and a teaching room were enough, today, in the era of the country's digitalization, there is a need to talk about a modern system for storing, processing and broadcasting various didactic media material. Today, in our opinion, such a system can be a virtual media library equipped with unique content created on the basis of such an authoritative institution as a museum that could set the quality standard, providing the user with only encyclopedic accurate information.

**Relevance of research:** Today, during the formation of the global youth Internet culture, the problem becomes urgent not to lose the youth - the future intellectual elite of the nation, to form in them an undistorted picture of the culture of the native country in a form they understand and in a language they understand. The main sources of information of modern youth (Wikipedia, various kinds of Internet resources) practically do not contain actual information about Kazakhstan culture, local lore, and outstanding representatives of the Kazakh cultural world. Rare materials on the Internet are unorganized and contradictory in nature (or are the result of the work of foreign researchers who are far from Kazakhstan reality).

**Methodology used:** dialectical method, system, information approaches, methods of analysis and synthesis, induction and deduction.

**Expected results and their applicability:** creation of a virtual media library as a unified database of multimedia programs and video films with the aim of virtual access to the cultural heritage of the peoples of Kazakhstan (based on 6 regional museums of the Republic of Kazakhstan); creation of an interactive multimedia Internet museum "Turkic Cradle: Kazakhstan on the Great Silk Road" as the basis of a virtual media library in the preparation and conduct of training sessions and educational events, as well as in the formation of tourist motivation for the development of cultural tourism in the regions of the country.

**Potential consumers of expected results** Kazakhstani universities, universities of Turkic countries, near and far abroad (Russia, China and Turkey) in the educational process.

### **3. The purpose and objectives of the project**

**Objective of the project:** adding new content to the virtual media library, facilitating the integration of the museum into the educational space, thereby contributing to the expansion of the outlook of youth - the future of Kazakhstan, and the formation of a positive image of the regions in the value consciousness of young people.

**Project Objectives:** 1) creation of an interactive multimedia Internet museum "Turkic Cradle: Kazakhstan on the Great Silk Road" (five-language site) as the basis of a media library that combines elements of a 3D gallery, video hosting and mobile application (for convenience of visiting from mobile devices) and containing detailed high-quality virtual tours of the above objects; 2) the organization of a professional network community (an analogue of a specialized social network), teachers and cultural workers to coordinate their efforts in cultural, educational and educational work among young people; 3) preparation of the methodical manual "Mediastock of professional skill";

**4. Keywords:** multimedia resources, virtual media library, virtual museum, museum pedagogy, intellectual elite.

## **DESCRIPTION OF THE PROJECT**

### **The purpose and objectives of the project.**

**Project goal:** using modern achievements in the field of information, communication and multimedia technologies, to promote the integration of the museum in the educational space by

creating a virtual library, the content of which will be content that contributes to the formation of the youth's intelligence - the future of Kazakhstan.

**Project Objectives:**

1) - create a virtual media library on the basis of 6 regional museums of the Republic of Kazakhstan (the number of museums completed by creative work on the project in the expected time frame), which are a virtual museum and educational videos created on the basis of regional museums.

**The creation of a virtual regional museum within the framework of this Project will include:**

a) virtual copies of the main regional museums of Kazakhstan (each exhibit separately, video broadcast, tour in 3D format, comments by a professional guide and historian).

b) excursions to the largest and most historically significant cities of Kazakhstan (in two formats: an excursion around the old city, compiled from unique archival photographs and a tour of the modern city in 3D format).

c) video excursions to the main places significant for Kazakhstani history - the place of birth of prominent cultural and political figures, the place of hostilities (included in the school curriculum),

d) video tours of unique nature reserves (oriented both to schoolchildren of Kazakhstan and potential tourists).

e) widely integrated and non-attached to a specific territory acquaintance with biographies of great representatives of Kazakhstan with the ability to search for targeted information in all museums and electronic libraries of Kazakhstan, without reference to a specific region.

**Creation of videos on the material of regional museums.**

To designate a product created for educational purposes by means of video, in our study we use the concept of "video". A video film as a genre involving the creation of a film with a dramatic plot; An interesting, unusual plot move (author or director), performed by artistic and expressive means of video.

Topics of the planned training videos:

- Personality from the perspective of the history of Kazakhstan;
- Dialogue of cultures in the context of cultural diversity of Kazakhstan;
- Cultural identity of ethnic groups living in Kazakhstan
- The problem of preserving and relaying the ethnocultural heritage of the peoples of the Republic of Kazakhstan;

- as well as films dedicated to poets and writers, whose life and work are associated with a particular region of Kazakhstan.

When creating a movie, the tasks are:

1) to awaken in the minds of youth targeted requests for culture, personal motivations for the development of the cultural space, filling the cultural vacuum with the knowledge gained from the treasures of the museum, and also to help shape the country's regions for the development of cultural tourism

2) the organization of a professional network community (an analogue of a specialized social network), teachers and cultural workers. Within the framework of this Project, it is planned to carry out work to improve the mechanism of effective professional cooperation of participants in information interaction on the topic: “Organization of the educational process in the information educational environment”, focusing on the use of the created Virtual Media Library. It should be noted that by placing the created media library on the network, we will make it open to various kinds of additions and updates. Thus, due to the network and collective nature of the activity, teachers and cultural workers have an Internet platform to coordinate their efforts in cultural and educational work among young people with the aim of developing an effective methodology for the remote teaching of individual disciplines using a virtual media library

3) development of a software application for online consultation with representatives of cultural institutions included in the project through the website (skype);

4) preparation of the methodological manual “Media Library of Professional Excellence”. The basis of the manual is planned to include videos of excursions conducted by the best museum workers, comments by scholars - local historians, ethnologists, etc., as well as videos of the best lessons, educational events conducted by teachers from regions using the resources of a virtual media library. It is thought that, thanks to the unique content, this manual is able to open new perspectives in the organization of the educational process, provide comprehensive support for the creative work of the teacher. It should be noted that the creation of the aforementioned multimedia teaching aids is of particular importance for rural educational institutions.

5) Holding an international conference to exchange experiences on the integration of culture and education. The scientific forum will be aimed at summing up the results of the project in the regions covered by the Project. The main goal of this event is to arouse the interest of all those interested in the spiritual, moral and patriotic development of young people created during the

project by the educational and methodical resources of the Virtual Media Library with the prospect of its widespread introduction into the educational process as an additional didactic tool for classes.

**Scientific novelty and practical significance of the project.**

1. A prerequisite for the development of the project was the situation related to the role of media in the life of young people. Today she projects herself and her relations with the world through the media, which offer young people various ideals, values, world perceptions. However, the presence on the Internet, along with objective information, of a huge amount of information of secondary or tertiary processing, not only does not initially create the scientific basis for obtaining further knowledge, but also contributes to the formation of false value orientations. Under these conditions, the institute that can most successfully cope with the problem that has arisen is the museum, since its socio-cultural activities are based on primary, truly objective, initial historical and cultural information, i.e. it appeals to cultural standards. In addition, the museum as a symbol of culture can play an important role in the upbringing of a young man, “immersing” him in the culture of the past, linking it with the values of the current time, engaging in dialogue with them.

It seems that the virtual media library created within the framework of the Project meets the needs, methods of obtaining information and the lifestyle of young people formed in new sociocultural realities.

The scientific novelty of the Project is to use the resource potential of the regional museums of Kazakhstan with the aim of creating a virtual library containing unique content, as well as scientific and methodological products prepared on this basis.

A review of previous scientific studies carried out in the world related to the topic under study and their relationship with this Project:

The theme of our study is directly related to the use of new technologies in the educational process of higher education.

New approaches in education have required new methods in working with information. Modern technologies have filled the educational process with new content - video, audio recordings, multimedia courses. Previous didactic materials also found a new face - there are more and more textbooks available in electronic form. However, the fragmented and unsystematized storage of these materials leads to their inaccessibility to students and to the inconvenience of use for teachers. Today, there is a need to talk about a modern system of storage, processing and translation of various media didactic material. Such a system today can serve as a virtual media library, equipped with unique content created on the basis of such an authoritative institution as a museum, the educational

essence of which is one of its main functions. Considering the museum as a pedagogical system, we turned to the concept of "museum pedagogy". It was first formulated at the end of the 19th century in Germany (E. A. Rosmeler, A. Lichtwark, A. Reichwein). E.B. Medvedev, studying the formation of museum pedagogy in Germany and Russia, notes that it was initially interpreted as the direction of museum work with students. The Hamburg Museum of Art became the cradle of museum pedagogy, and its "father" was the director of the museum, in the first profession a school teacher A. Lichtwark (1852-1914). Introducing the concept of "museum dialogues" for the first time, Lichtwark became the founder of the museum-pedagogical methodology, the purpose of which is to develop the ability to creatively perceive a work of art through an understanding of the artist's intention [7].

With the increasing social role of museums in society in the 60s of the XX century (the so-called "museum boom"), museum pedagogy began to take shape as a special branch of knowledge and research. In the USSR, the term "museum pedagogy" has been used since the 70s of the XX century. [9].

The definition of museum pedagogy was born in 1989 at the Research Institute of Cultural Studies, when the Russian scientist M. Yu. Yukhnevich proposed defining museum pedagogy as a scientific discipline at the junction of museology, pedagogy and pedagogical psychology, which studies the educational activities of museums [10, 11].

The development of museum pedagogy was influenced by the theory of dialogue of cultures of M. M. Bakhtin and V. S. Bibler. [2, 3, 8]. According to which, the museum, with the aim of preserving and transmitting material evidence of the experience of creative activity, creates a unique artistic and temporary space and immerses the viewer in the culture (art) of the past, linking it with the values of the current time, involving wide sections of the audience in dialogue with them. EG Vanslova notes that museum pedagogy can provide invaluable assistance in the process of upbringing, help a person become a creative person, form a value system [4], which fully meets the goals of this Project.

Significant international experience has also been accumulated in this direction. Foreign museological literature has long and fruitfully developed a range of issues on the relationship between the museum and society. The most famous are the books of J. Bazin, A. Wittlin, C. Hudson historically substantiating the ideology of the "public ministry" of the museum [1, 12, 13]. In European studies, the tradition of perceiving a museum as a means of out-of-school education and

upbringing of a person throughout his life is found. (L.V. Coleman, H.M. Maton-Howarth, G. Talboys, I. Finley, etc.) [11].

Currently, the efforts of researchers are aimed at philosophical understanding of the phenomenon of the museum and its role in the post-industrial society, which is based on fundamentally new technologies and which develops a new attitude to cultural heritage (the concept of the “museum-forum” - A. Hatton, D.F. Cameron and others; the concept of “a museum without borders - virtual museums” - G. von der Osten and G. Borger).

It is the qualitative changes in the activities of museums (democratization, focusing on the needs of the museum audience, etc.) in the period designated as the “museum boom” (1960–70) that brought to life the idea of the museum’s functionality as a social institution. These processes also did not pass by Kazakhstani scientists. So, in 1984, at the Scientific Research Institute of Culture, a permanent Kazakhstan seminar “Museum and the younger generation” was created. This seminar has become a school for the exchange of unique experience of museum workers from all over Kazakhstan and the former Soviet republics. He went down in the history of museum and pedagogical thought of Kazakhstan as a “museum universal education”. The result of this work was the creation of a scientific and practical center for museum pedagogy in Almaty in 1990 on the basis of the museum department of the Institute (currently the Academy) for retraining of workers in art, culture and tourism (IPRIKT) and was called the creative laboratory “Museum Pedagogy” [5 ].

Kazakhstani scientific and practical centers dealing with the problems of museum pedagogy are currently the organizational base for its further development. The trend of recent years is attention to the cultural and educational activities of museums, which is becoming one of the priority areas of museum work.

From the foregoing, it can be seen that museum pedagogy can give the researcher the tools that will make it possible to comprehend all types of museum activities in the pedagogical aspect and thereby increase the level of its educational impact. The authors of this Project were guided by this, when they expressed the main essence of the proposed work in the title: “Virtual Museum Media Library as a Means of Integrating Science and Modern Pedagogical Practice”.

## **2. Significance of the project nationally and internationally.**

The significance of the project on a national and international scale is seen in its focus on the future, as today's youth is the future of the country. As soon as educated in the world of national traditions, the great heritage of their ancestors, who have not lost touch with the past, youth can become the future intellectual elite of the country.

Speaking about the integration of the museum into the educational space, of course, we are not united.

Of course, there is a trend in the development of museum multimedia. The 21st century and the widespread use of multimedia technologies have significantly changed the approach of museums to showcase their collections. Thanks to the creation of virtual museums, media libraries, unified multimedia databases, each museum has expanded the scope of its activities.

The Google Cultural Institute is a global online educational project whose affiliate program brings together hundreds of museums, cultural institutes and archives around the world. The importance of this multilingual project in the global educational process is enormous. The Google team travels to museums, digitizes originals and makes cultural treasures accumulated by humanity in the history of civilization open to any person. Anyone can wander around the famous museum complexes every day and view the works of art in great detail [14].

Among the museums whose funds have been digitized for the art project of the Academy of Culture of Google: the Hermitage and the State Museum of A.S. Pushkin, the Tokyo National Museum, the London Serpentine Gallery, the Corning Glass Museum, MoMA, the New York The Metropolitan Museum of Art, the Canadian Museum of Ballet , the Swiss Olympic Museum and hundreds of others [15–20].

The historical and cultural potential of Moscow museums in the educational process is also actively used in Russia. Perhaps the most successful in this direction should be called the project "Russian Museum: a virtual branch", which is an independent program of this museum. The museum's collection (more than 400 thousand exhibits) allows us to present not only the history of Russian fine art, but also the history of Russian culture, the history of Russia in artistic images.

In Kazakhstan, some work is also being done in this direction.

So, everyone can visit the ethno-memorial complex "Map of Kazakhstan" "Atameken" on the Internet from anywhere in the world. The first virtual museum in Kazakhstan, created on the basis of the collections of the State Russian Museum, operates in Ust-Kamenogorsk. Specialists from St. Petersburg installed hardware and software. Now, with the help of computer technology, you can wander through 38 halls of the Russian Museum. At the Gylym Ordasy RSE, the Virtual Interactive 3D Museum of Science opens. There are several more developments, but, as a rule, they relate to large central cultural objects located in Astana, Almaty or other megacities of the country.

Thus, today in the world market of multimedia products there is a significant number of developments using the richest treasures of museums as an educational and educational resource of

society. However, in Kazakhstan, the creation of such products is still underdeveloped. As for this Project, the fundamental difference from existing analogues is, firstly, the unique material contained in the country's regional museums. Secondly, we took as a basis the direction of museum activity, which determines the future - these are young people in the museum. Considering how the younger generation perceives the traditional ways of presenting the museum's collection, we propose alternative content in the form corresponding to the new era, because the old connections and formats for the most part in the youth environment no longer work. Thirdly, the content of the created media library is structured in such a way as to promote the formation of value orientations, patriotic feelings among young people, arouse interest in its history, and enrich them with knowledge about a small homeland. Fourthly, it is planned that the final product of the project we are working on will contribute to the formation of the image of the country's regions to attract tourists. (China. Silk Road).

**3. Social demand and (or) economic and industrial interest in the implementation of the project and obtaining its results.**

Systematic development of multimedia teaching aids will contribute.

- further improvement of the digital multimedia industry in education;
- the emergence of additional opportunities for teachers who are actively introducing innovative forms of work in the process of preparing training sessions for the purpose of teaching that meets modern requirements;
- providing remote access to the created electronic product, including provincial rural schools;
- Organization of a network of professionals and all interested parties on the problems of integrating museums into education;
- the formation of tourist motivation for the development of cultural tourism in the regions of the country;
- the formation of an appropriate infrastructure for regular updating and replenishment of the publicly available knowledge base on a special Internet site.

**4. The impact of the results on the development of science and technology and the expected social and economic effect. Active implementation of modern interactive technologies in the organization of the educational process will contribute to:**

- improving the education system of the Republic of Kazakhstan;

- Organic replenishment of educational and methodological complexes of pilot e-learning conducted in the Republic of Kazakhstan since 2012.

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## **Aral Sea tragedy creates dark and adventure tourism**

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**Abstract:** At one time Aral Sea (Kazakhstan) was the fourth largest lake in the world. However, as a result of humans' actions, the sea has lost its water in huge amount. Consequently, these changes have brought a large number of environmental problems to the Aral region. For instance, the climate of Aral Sea zone significantly has been changed. Nevertheless, some tourists started to visit this area with adventure and dark tourism purposes, although the destination had environmental difficulties. Thus, the Kazakhstan government decided to develop the Aral region infrastructure to attract more visitors who have different goals.

**Keywords:** Aral Sea tragedy, dark tourism, adventure tourism, Aral region tourism

### **Introduction**

People from around the world are afraid about increase of the oceans level, and Aral region's population worry about decrease of water in the Aral Sea. The tragedy, which occurred with the Aral region, is one of the worst in humans' history. The Sea decreased in size several times, since the people who used its water for the agriculture never thought about outcomes. Yet, the results were tremendous harmful for the environment. Nevertheless, the government of Kazakhstan has been trying to save the Sea with several projects.

Although the catastrophe in the region brought many problems as biological, ecological, etc., some local touristic business representatives could have benefits from it. Many visitors from around the world are curious about the Aral tragedy, and they want to be witnesses of this process. Thus, new touristic perspectives of the area have future, and the local government already has plans to develop it. Ultimately, the climate change could give advantages and disadvantages for the region.

### **Methodology**

The article covers the secondary data, which are reviewed through the Kazakh University of Technology and Business Library. The information sources, including bibliographic databases and various Internet search engines are used, in order to complete the research. For example, the authors, such as Gleick, P.H., Kasperson, J.X., Kasperson, R.E., Databekova, K., Kroodsma, D., and Micklin, P., have written books and articles recently, which are related to the article topic, 'Aral sea tragedy creates dark and adventure tourism'. Thus, it is important to use their work as a source. The works of other researchers (e.g. Salokhiddinnov, A.T., and Khakimov, Z. M, Osborne, E.R. and Kriese, P., Waltham, T. and Sholji, I.), who are focused on the tourism development, also are reviewed in the article.

### **Climate change in the Aral region**

The Aral Sea is located between Kazakhstan and Uzbekistan in Central Asia. During the USSR time and before, the Sea was an important part of not only local people, but also the whole country. Before the middle of twentieth century, the Aral Sea (64 490 km<sup>2</sup>) was the fourth largest lake in the World after the Caspian Sea, the Great Lakes, and the Lake Chad. However, one of the largest lakes in the Earth started to dry from the 1960<sup>th</sup>. (Table 1) Eventually, the region near the sea was severely damaged. (Databekova, K., 2013; Gleick, P.H., 1998, pp. 2, 189; Kasperson, J.X., Kasperson, R.E., 2001, pp. 287, 293)

‘Annual flows into the rivers from their mountain catchments fluctuated with heavy and light winter snowpacks, but there was no overall decline through the period of monitoring, 1920 – 1990. The reduction of water flows into the Aral Sea was entirely due to the massive abstractions for cotton irrigation.’ (Waltham, T. and Sholji, I., 2002)

The two rivers Amu Darya and Syr Darya, which are feeding the sea with water, have been decreased supplying water. Therefore, the level of the sea's salinity has been had growth three times. With wind these salt and other toxic chemicals (mostly from irrigation pesticides) travel to hundreds of kilometers from Aral. For example, some pesticides which were used near the Aral Sea region were found in Antarctic penguins; in addition, Aral salt crystals have been assisting to melt the Himalayan glaciers. During one year, winds can carry about 15 – 75 million t/yr of dust and sand through the Aral area. (Osborne, E.R. and Kriese, P., 2008, p.10; Enrin.grida, 2015; Salokhiddinnov, A., and Khakimov, Z., 2004, pp. 127-129; UNEP, 2014, p.7)

During the 1980s, the Sea had a separation into two parts – in the south a Large Aral Sea, and in the north a Small Aral Sea. From 1960 to 2010, the level of water in the Large Aral went down by more

than 20 m, and the Small Aral had a decrease by roughly 10 m (Table 1). During this period of time, the volume of two seas reduced by well under 91%, and the area by 74%. (Micklin, P, 2007, pp.52 – 53; UNEP, 2014, p.5-6)

Table 1. *Dimensions of the Aral Sea over 50 years of decline. The figures for 2010 are the best estimates, and by then the Large Aral will be in two separate parts.*

Source: Waltham, T. and Sholji, I., 2002.

Year	Sea	Level (m)	Area (km <sup>2</sup> )	Salinity (%)
1960	Aral Sea	53.4	67 000	1
1971	Aral Sea	51.1	60 000	1
1982	Aral Sea	44.8	51 000	2
1994	Large Aral	36.8	29 000	4
	Small Aral	40.8	3000	3
2001	Large Aral	32.0	20 000	6
	Small Aral	38.0	3000	2
2010?	Large Aral	29.0	7000	8
	Small Aral	43.0	3500	1

During the recent 10 years, because the Aral Sea has been drying off, the regional climate had enormous changes. For instance, before the tragedy of the Sea started to happen, the area as regarded as a place with mitigated cold winds and continental climate. Thus, as a result of the changes, in the region, the summer time have begun to be shorter, and winters much colder. Plus, the vegetative seasons have been decreased to roughly 6 months, and the pasture productivity went down two times. The precipitation of the area has been had a decrease to 150 – 200 mm in annual average. The indicator of evaporation had a rise to 1700 mm per year; furthermore, air moisture made a reduction by 10%. Also, the average temperature during winters and summers has been changed significantly (an increase by 2-3 degrees C). (Enrin.grida, 2015; UNEP, 2014, pp.7-8)

### **Attempts to save Aral and future plans**

The Kazakhstan government has been making attempts to partially restore the Northern Small Aral. Initially, during the 1990s, the dam was built there, in order to prevent the water outflow to the South Aral, where it lost in vain due to evaporation. Although the dam was destroyed after a catastrophic break in 1999, the attempt to raise the water and reduce its salinity showed that it is possible. Consequently, in 2005 the government and the World Bank built another dam 13 km long (cost \$85 million), which were more powerful than the previous construction. The following winter, large

volume of water from Syr Darya River started to restore the northern Small Aral Sea. Eventually, the next eight months, the water level increased from 40m to 42 above the level of the oceans, and the water surface area had growth by 18%. Moreover, the water salinity declined from 20 g/l to 10. (Micklin, P. and Aladin, N., 2008; Enrin.grida, 2015)

A significant portion of the volume of water for irrigation takes cotton. Consequently, if the people from the Aral basin region use water for lower moisture crops as winter wheat, they will spend twice less water than to cotton. In addition, they need modernize their irrigation systems, in order to save 12 km<sup>3</sup> of water; however, it will cost \$16 billion. Ultimately, it will be important for the revival of the Aral Sea. (Micklin, P. and Aladin, N., 2008)

Reforestation of the Aral region will be another way to solve ecological problems. Increasing vegetation cover can assist to decrease the quantity of dust storms. Recently, several forestation projects have been started to stabilize soil by some international organizations. For instance, IFAS (International Fund for saving the Aral Sea) has a plan to have an increase of forest cover from 10 per cent to 14; as a result, the total cover will be 40,000 hectares. Ultimately, with afforestation projects, the ecological tension of the region will be reduced, and local people are able to involve into it. (UNEP, 2014, p.8)

**The tourism in the Aral region**

The Aral Sea with its ecological problems has commenced to attracted tourists from European and North American countries after collapse of the USSR. During the Soviet Union time, only visitors from Socialist Republics could access to the region, but currently it is open for all guests. As Table 2 shows that the quantity of tourists has fluctuation between 500 and 1100 per year. In fact, most of them have visited for its dark tourism. Therefore, the climate change, which was as a result of human being actions, could give to the area new touristic perspectives. (dark-tourism.com, 2015; Department of Statistics Kyzylorda region, 2014, p.11-14.)

Table 2. *Tourist number In Aral region for 2009 – 2013 years*

Source: Department of Statistics Kyzylorda region, 2014, p.11.

Year	2009	2010	2011	2012	2013
The number of tourists	951	1124	769	553	1149

**Positive impacts of Climate Change to Tourism**

New types of tourism have been changed the local people lifestyle, because hundreds of visitors provide them with extra earnings. Even though the climate change harms the domestic population's health, they are able to benefit from it. (dark-tourism.com, 2015; Central Asia Monitor, 2014) There are several examples of tourism development due to climate change in Aral:

Firstly, nowadays, the Aral region has the new side of tourism, and it is dark tourism. For instance, most visitors conclude that on one hand, this town is desolate, unclean and depressing, on the other hand these descriptions are perfect for dark tourism. Ultimately, tourists mainly visit this region for its dark side. (dark-tourism.com, 2015; Kroodsma, D., 2014)

Visitors want to see old ships. In the past there were a lot ports with ships; yet, after the sea lost its water in huge amount, these vessels became popular as tourist attractions – rusting and lying on the sand. (Central Asia Monitor, 2014) In fact, tourists call them as ‘ship cemeteries’, and ‘a symbol of the Aral Sea region’. Still, local people have been cutting the ships to scrap, and they sell them. As a result, foreign visitors try to come and see these vessels, before they disappear. (dark-tourism.com, 2015; Central Asia Monitor, 2014)

Secondly, the number of adventure tourists in the region has been increasing. There are excursions as visiting ancient castles, historic monuments and following important points along the Silk Road. In 2013, about 300 foreigners went to camping near the sea. The peak of popularity of this place is in spring and fall, but some groups of tourists come even in January. Mostly, tourists are usually looking for adventure, and they wish they could see the famous lake before it is gone. (Central Asia Monitor, 2014)

Thirdly, visitors from different countries (former USSR countries) used to travel to Aral, in order to see its fauna. However, in the 1980s, the rapid depletion of the Aral Sea became a new threat to the animals in Nature Reserve, Barsakelmes near the sea. Consequently, the local government decided to hand most of population of kulans, which were main habitants in that area, to other National Reserves and Parks. Only species, which had problems with breeding, were stayed in the Reserve. Still, these animals started to increase in amount, and more that it was before, because they had more place. Ultimately, the climate change situation assisted to develop the process of breeding among animals, and tourists and scientists are visiting the region again. (UniqueKazakhstan, 2015)

### **Negative impacts of Climate Change to Tourism**

In the past, the Aral Sea was always one of the richest seafood suppliers, and people from regions used to go there for fishing. Now, however, the level of salinity of the water is so great that most species of fish were killed (Table 1.). Besides, the fish, which are caught now, have excessively high levels of pesticides. Therefore, these problems do not attract visitors to the Aral Sea region anymore. (Micklin, P., 2007, p.54; orexca.com, 2015)

The Barsakelmes National Reserve has a lot unique animals as saiga and gazelles. In fact, tourists and scientists has been visited to see and research them for long time as they have for kulans. Yet, poaching is developed in this area, since fishing industry was stopped and a lot workers lost their job. So, unemployed people from that sector started to hunt to the animals. Although the government tries to multiply and preserve the number of animals, some people kill them illegally. Ultimately, as the paragraph above shows that the climate change situation in the Aral region helped to increase the amount of fauna, poachers hunt to them a lot. Consequently, if the animals disappear soon, visitors will not come to the Aral area. (KazakhstanToday, 2009; zakon.kz, 2013)

### **The Development of the Aral region as a tourist destination**

In the Aral region, the local government implements an ambitious tourism project, ‘Kamystybas-Aral’. This place will remind exotic countries’ beaches. According to the plan, the area of touristic zone is 494 hectares, and a pension-dispensary with 100 seats appears. Also, cottages, playgrounds, a yurt village, swimming pools, a water park, and a safari park will be constructed in the near future. For example, foreigners significantly are interested in seeing local traditions at tourist destinations. Therefore, the complex of yurt will include 20 buildings with national sense near the Aral Sea. (centrasia.ru, 2009; Databekova, K., 2013; zakon.kz, 2014)

### **Conclusions and Recommendations**

To conclude, the Aral Sea was one of the largest lakes in the world; however, as a result of the humans’ action, the Sea lost its water in the significant amount. Therefore, the environment and local citizens met the climate change in the region. For example, the average temperature increased by a few degrees, winters begun to be colder, and animals and plants started to die in huge numbers.

It is not just a local problem, but a global issue. Consequently, the world attention should be more, since the Aral tragedy could bring problems for the planet in the near future. Aral salt storms, which

are helping to melt the glaciers in the long distance, demonstrate the seriousness of the problem (Himalayan glaciers). Nonetheless, there are attempts from some organizations and the Kazakh government to save the Sea. Still, it needs more attention.

Even though the climate change negatively influenced on the local tourism sector, new touristic development as a dark and adventure tourism could appear with tragedy. Moreover, new projects, which are considered as tourism future of the region, will be realized during next years. Consequently, it will help to recover the local people's lifestyle conditions and the environment.

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## **Futures Studies and Foresight: Surfing Tsunami in the Increasingly Turbulent World**

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**Abstract.** Looking at the present-day context, we can quickly notice that our time is losing its normality, stability, and predictability. More chaos, contradictions, and complexity is coming into our lives, and we have to cope somehow with all rapidly happening changes. The question, “what to do?” in such an environment, still resonates with every heart and mind. Therefore, the author suggests considering some instruments that can help to survive and thrive in the increasingly turbulent world. Among them are Futures Studies and Foresight as academic disciplines and practical tools that have a wide variety of applications. Starting with outlining the main characteristics of our era as Postnormal Times, the paper moves to a specific understanding of the future. Now it should be plural, sometimes ridiculous or even marginalized, and often procedural. Foresight as a discipline is gluing all these together, creating a well-informed map of the future(s). Different entities - from the Shell corporation to the Roma-Catholic Church - use this foresight because its ultimate power lies in the ability to alter perspectives due to providing new lenses to look through and reframe the outdated processes that are no longer effective. The author presents Singapore as a case study drawing some parallels with Kazakhstan. The concluding remarks pose some questions that are good for pondering and pushing the futures literacy forward in the Republic.

**Key Words.** Futures studies, foresight, Postnormal Times, VUCA, QRIFS.

### **Introduction**

Think for a second and answer the following questions:

- How many people are using Nokia phones nowadays?
- Who does remember Kodak films?
- Why did Samsung Electronics so easily purchase Intel Corporation?

Alternatively, ponder on the other set of questions:

- What caused the emergence of such companies as Amazon, Airbnb, or edE?
- How did it come that Apple computers become the top brand in the world?
- Why is Singapore the most open, less corrupted, and the fastest growing economy in the world?

The answer to all these questions is “*Foresight*.” It is closely connected with Futures Studies and serves as an umbrella term to that progressive policy formulation, strategic planning, and problem-solving procedures that help to expand the future and look at it from different perspectives. One of the foresight definitions identifies it as “a systematic, participatory, future-intelligence-gathering and medium-to-long-term vision-building process aimed at enabling present-day decisions and mobilizing joint action” [Miles, Saritas, Sokolov 2016, p.12]. In other words, foresight is an empowering tool to look for and use new ways of thinking about and implementing strategic plans.

Foresight is inseparable from Futures Studies because its central premise says that the future is not fixed and determined once and for all destiny. Actually, there are many futures because that coming reality is still in the making, and many factors – including us, humans – can actively influence and create it. Jennifer M. Gidley, an Australian futures researcher, argues in her *The Future: A Very Short Introduction*

For thousands of years, we have struggled to predict, control, manage, and understand the future. Our forebears sought advice from oracles; read the stars through astrology; debated concepts of time and future philosophically; wrote utopias and dystopias; and, in the modern scientific era, tried to predict the future by accumulating and interpreting patterns from the past to extrapolate models of the future. However, the single, predictable, fixed future that the trend modeling proposes does not actually exist. Instead, what is out there is a multitude of possible futures” [Gidley 2017, p.2].

What does the plural form of the future mean for us? First, it leads all stakeholders to an empowering realization that plurality is a norm, and nobody has to rely on "used" or a "second-hand" future promoted by someone else. Second, plurality breaks the pattern of relying on “experts” and gives space to a democratic and participatory model inviting different social groups to discussions and decisions making about *their* future. Third, those participatory futures induce a need for learning such essential for foresight skills as systems and critical thinking, cross-impact analysis and synthesis, planning for long-term and uncertainties, thus promoting a new mode of thinking – futures

thinking. Fourth, adherences to futures cultivate creativity in imagining, simulating, or narrating probable, possible, plausible, preferable, or any other sort of a future instead of replicating and passively accepting a given “good practice.” Fifth, failure and collapse get their rightful place under the sun in the form of another scenario pro-actively modeling possible situations, thus making stakeholders advance not only emotionally but strategically as well. Therefore, futures as a plural entity build the foundation for formulating and shaping a successful foresight for the development process.

In short, foresight helps to look ahead with the benefits of hindsight and insight into our current condition. Applying its methodology, we can plan and implement innovations and changes to get where we want to be. Foresight brings the most advanced understanding of how teams, communities, organizations, businesses, and governmental structures design, plan, and implement new approaches with long-term and human-centered perspectives.

After this brief introduction, let us discuss the relevance and necessity of foresight and futures studies nowadays. Some social-philosophical theories and descriptions of our time will serve as a foundation, which will bear key characteristics and practical example of foresight application. These three topics are going to constitute the structure of the paper and the further narrative.

### **Scratching the Surface of Our Time**

Nothing sounds more contemporary than Heraclitus’ statement in *Cratylus* by Plato, “Everything changes and nothing stands still” [Sedley, 2007, p. 402]. A lot of experts across disciplines argue that we are living in turbulent times. Some have adopted the acronym VUCA to describe the challenging landscape; some are naming our era the “Postnormal Times.” Though different in the name, the essence of both concepts has much in common.

VUCA, which stands for Volatility, Uncertainty, Complexity, and Ambiguity, was first coined by the US military to describe the world after the Cold War ended in 1987 [*Who first originated the term VUCA?* 2019]. Later on, starting in 2002, the more frequent use and discussion of the term “VUCA” began primarily in the field of business and strategic planning [Wolf 2007, p. 115]. A brief review of the concept gives us the following characteristics of its components:

- **Volatility** is responsible for creating a world with exponentially increasing social, cultural, and technological progress within incredibly short intervals of time;

- *Uncertainty* increases breaking our innovation efforts;
- *Complexity* emerges not only because technology drives it. Colliding with technological advancement, societal, economic, environmental, and political drivers create new challenges as well as new opportunities.
- *Ambiguity* points out that the variables, humans or businesses have to operate with are merely unknown, thus contrasting with uncertainty when the variables are a stack of cards.

Extrapolating such a context into a business environment, the adherents of a VUCA concept argue that

- Trying to stay informed about the latest trends and data is not enough. The imperative is to go ahead and create the future. Organizations need to learn to recognize emerging patterns and develop resilient strategies for surviving and thriving;
- Planning and doing problem-solving to reduce uncertainty is an impossible goal. Instead of focusing solely on the state of vagueness, business leaders and companies have to adopt approaches to engage with uncertainty and ambiguity actively [Strategic Foresight Primer 2017].

While the VUCA concept focuses mainly on business, the Postnormal Times theory (PNT) pioneered by Ziauddin Sardar and his colleagues at the Centre for Postnormal Times and Futures Studies (CPPFS) demonstrates its comprehensive nature [Sardar 2010]. It proves to apply to all spheres of modern life because of its in-depth and exhaustive approach.

Sardar defines PNT as an “in-between period where old orthodoxies are dying, new ones have yet to be born, and very few things seem to make sense” [Sardar 2010, p. 435]. From this perspective, three main characteristics of our time are the so-called “3Cs”: complexity, chaos, and contradictions. Complexity is the dominant theme because a plethora of independent parts, units, people, and events interact with each other in a great variety of ways. Social networks, international unions, multinational consortiums – everything is connected to everything else, and everyone hooks everyone in this or that way, amplifying things in geometric proportions. Sardar points out that “a single tweet, a computer hack, a strike, a single resignation, can set off a chain reaction with unforeseen consequences” [Sardar 2019, p. 8]. As a result, we face mind-boggling chaos. Both complexity and chaos function in the context of accelerating change, thus making many positions

logically inconsistent and contradictory. By definition, contradictions mean conflicting views that cannot be resolved [Cambridge Dictionary]. Therefore, the oppositions should get transcended and synthesized in a new way that includes as many differences as possible.

If we want to succeed in paving the way to the future(s), we have to learn an essential lesson about changes produced by the 3Cs (complexity, chaos, and contradiction). A PNT change has four specific characteristics or 4Ss: Speed, Scope, Scale, and Simultaneity, thus featuring an accelerating pace and a tendency to a global dimension, penetrating deeper than usual, and registering its impact at the minutest scale. Very often changes occur simultaneously acquiring a universal scale very promptly. When 3Cs and 4Ss come together, they give birth to a great deal of uncertainty, which in turn generates ignorance. Sardar points out, “In Postnormal times, uncertainty and ignorance shape the *zeitgeist*” [Sardar, Serra, Scott 2019, p. xvi].

Nevertheless, answering a critical question of postnormality, "what to do then?" Sardar encourages us not to lose hope and "do our utmost to nurture positive, sustainable, and life enhancing change" [Sardar 2019, p. 14]. In other words, we have to learn to navigate PNT through the following means:

- Develop alternatives that can combat uncertainty;
- Practice multiplicity and inclusivism to cope with complexity;
- Foster creativity to counteract precise “mathematical” methods;
- Stimulate ethical values such as modesty, accountability, humility, and community in connection with knowledge and technological advancements; and finally
- Facilitate polylogues to create spaces for multiple voices, logics, perspectives, and existences for a new synthesis [Sardar 2019, pp. 15-18].

Therefore, only new syntheses and knowledge can help humanity to surf big waves of uncertainty in PNT. Foresight and futures studies are among those tools that can aid this task.

### **Learning About the Futures**

However, why do we need to worry about the future? We have enough urgent concerns and needs today to absorb our attention. Firstly, we have to think about futures not to “predict” but to understand how change occurs, what opportunities may lurk over the horizon, and how we can avoid

possible pitfalls on the life road. The very fact of our awareness of how change could unfold changes the parameters of a changing world [Sardar, Serra, Scott 2019, p. xi]. This compelling reason for studying and exploring the future pushes us to be aware of what actions we should take now to shape a future we want next.

However, there is a second irresistible reason for being involved in Futures Studies on all levels, from personal to governmental. If we do not think about our own futures, others will do it and colonize it. Among “others” can be the existing and emerging technologies, organizations that operate Big Data, politicians with deterministic visions, and the dominant trends of a post-truth world. So making the first step in Futures Studies, let us secure certain things about the subject of learning<sup>138</sup>:

1. There is no such thing as a *single* deterministic future; therefore, the future should be “pluralized” and alternative futures should be multiplied;

2. The future cannot be predicted; therefore, Futures Studies and Foresight are not about *looking into a crystal ball* but about *making windows where there were once walls*;

3. There are no facts or evidence from the future; therefore, Futures Studies and Foresight are about creating the future(s) through thinking in terms of different (sometimes conflicting) personal and group perspectives, frames of references, and images;

4. Dator’s Second Law of the Future says, “Any useful idea about the future should appear to be ridiculous” [Dator, Sweeney, Yee 2015]; therefore, Futures Studies and Foresight should challenge existing beliefs, values, mindsets, and behaviors;

5. Technology is not the future; it can transform the coming reality (or even destroy it) because of the people behind it;

6. The future belongs to the curious; therefore, Futures Studies and Foresight benefit those who see beyond existing systems and thinking patterns;

7. The future is a process, not a destination – it is impossible to “reach the future or “arrive” there because there will always be another twenty or fifty years into the future;

8. Historically, most trends died out relatively quickly; therefore, Futures Studies and Foresight are busy with scanning the horizon for emerging issues and “weak signals,” because most of them might generate crucial changes;

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<sup>138</sup> The list is developed based on the materials from *Foresight Manual. Empowered Futures for the 2030 Agenda*. Singapore: UNDP Global Center for Public Service Excellence, (January) 2018, p. 8.

9. Most of us build the future(s) extrapolating current trends, past data, and familiar images; therefore, Futures Studies and Foresight is about deciding what to keep and what to leave. The worst thing is to live someone's past thinking it is your future;

10. Constructing, thinking, and using the future(s) is not only for organizations and corporations; Futures Studies and Foresight are the most democratic disciplines looking for a wide variety of students, starting from individuals to businesses to governments.

Classifying ideas that people usually have about the future(s), Joseph Voros, an American professional futurist, developed a cone diagram to show a number of the categories (Figure 1) [Voros 2017, p. 11]

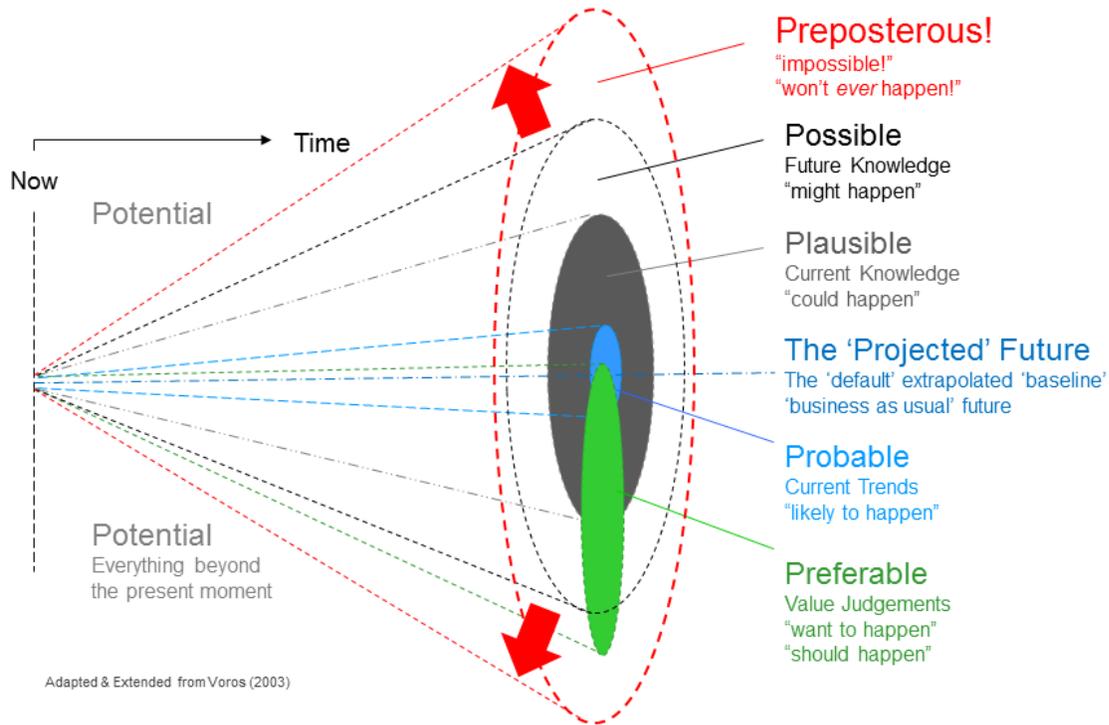


Figure 1

### Futures Cone

A brief description of the categories in the diagram constructs the following set of pictures [Voros 2017, pp. 10-13]:

• **Potential Futures:** identifies everything beyond the present moment. It comes from the assumption that the future is undetermined and “open,” which is perhaps *the* foundational axiom of Futures Studies;

• **Preposterous Futures:** can be described as “ridiculous,” “impossible,” or “never” happening. This category is a merge of Arthur C. Clarke’s Second Law (“the way to discover the limits of the possible is to move beyond them into the impossible”) [Clarke 2000, p.2], and James A. Dator’s Second Law of the Future mentioned above (“any useful idea about the future should appear ridiculous”);

• **Possible Futures:** those futures ‘might’ happen due to some future knowledge we might possess someday;

• **Plausible Futures:** they ‘could’ happen based on our current understanding of how the world works (physical laws, social processes, etc.);

• **Probable Futures:** those futures are ‘likely to’ happen, usually based on current trends:

• **Preferable Futures:** usually, they ‘should’ or ‘ought to’ happen: normative value judgments as opposed to the most cognitive, above. At the same time, the converse class – the *un-preferred* futures that we think should *not* happen nor ever be allowed to happen – comes along.

• **Projected Future:** only this one comes in a singular form because this future extrapolates the continuation of the past through the present. This single future could also be considered as being “the most probable” of the Probable futures.

Therefore, in order to get a clearer vision about futures, we do not need a better crystal ball but an instrument for building adaptability, resilience, and opportunities. Futures thinking is that instrument, while foresight provides the framework.

### **Linking Futures and Foresight**

Foresight can be identified as a discipline that allows us to explore the environment around us not only for obvious trends but also for some emerging issues, thus creating a well-informed map of the future. Such a map helps us to test our current policies and strategies, develop innovations, and create transformative changes utilizing scenario planning. The most famous example in the business sphere is Royal Dutch Shell that altered its strategy during the oil crisis in the late 1960s [Schoemaker, Heijden 2006] and continues adjusting its activities to the demands of the future, particularly to the Paris agreement’s requirements and energy transition [Shell Publishes New Report].

Another example of foresight application and scenario planning comes from the utterly different realm. The biggest and the most advanced entity that has ever applied this methodology on earth is the Catholic Church, the largest Christian denomination with more than 1.3 billion adherents worldwide. The Second Vatican Council (1962-1965) became the break-through point in foresight for the Holy See [Gonzales 2010, pp. 316-319] and addressed relations between the Catholic Church and the modern world, including ecumenical efforts towards dialogue with other religions and the universal call to holiness [*Gaudium et Spes* 1965]) that can be regarded as steps to Transformative and even Unthought Futures. Curiously enough, but Protestant Churches are using foresight very intensively as well, launching even a church management consulting companies that help ecclesial communities to work on vision, mission, and other elements of strategic foresight [Smart Church Management].

Why did that so different entities use foresight? Because its ultimate power lies in the ability to alter perspectives due to providing new lenses to look through and reframe the outdated processes that are no longer effective in our Postnormal Times. Therefore, it is better to think of foresight as a philosophy that supports all our decision-making and actions. In modern language, foresight is not another app but an operating system that helps to develop futures culture that leads to successful opportunity development and market-leading innovations.

However, dealing with futures through foresight is not a panacea. Some common pitfalls can turn our efforts into weaknesses. Therefore, it is necessary to remember the following negations [Foresight Manual 2018, p. 13]:

- Foresight is not a universal cure to all planning ills;
- Foresight is not a substitute for traditional planning;
- Foresight is not an excuse to skip the hard work necessary to realize the desired future;
- Foresight does not provide as an alternative to tough structural choices for organizations to become more adaptable and thorny political decisions for societies to become more “developmental” and inclusive.

What does foresight do, then?

- Foresight broadens our horizon;
- Foresight enables the development of innovations and transformative efforts in PNT

environment;

- Foresight opens up space for different groups of stakeholders in negotiations on values, perspectives, and vested interests.

It is important not to turn foresight into forecasting that extrapolates past data into the future and focuses predominantly on feasibility. To avoid this, the development of the "futures thinking" habit can help us. However, it is not an easy thing because of our physiology. Recently, neuroscientists found that our imagining of futures literally passes through memories. Some investigators have recognized that "information about past experiences is useful only to the extent that it allows us to anticipate what may happen in the future... Both past and future event tasks require the retrieval of information from memory, engaging common memory networks" [Schacter, Addis 2007]. In other words, humans have a cognitive bias to deny change and picture future in familiar categories that go back to the age-old cultural belief systems, thus replicating the past. We can overcome this "natural disability" employing education, building new cognitive networks, and constructing alternative images, learning futures thinking, and becoming futures literate.

What does "futures literacy" mean? UNESCO defines it as a "capability that offers insight into both the reason and the methods humans employ when they anticipate," and a "skill that allows people to understand better the role the future plays in what they see and do" [Transforming the Future: Anticipation in the 21<sup>st</sup> Century 2018]. In other words, we as individuals, organizations, communities, and societies learn to imagine and shape different futures for different reasons, values, and worldviews, and we learn how to foresee and usher them. In short, we learn using alternative futures. It is not only a theory but also a reality, and it would be useful to consider some of the present-day examples, Singapore, for instance, to see if Kazakhstan can withdraw and learn some relevant lessons.

### **Southeast Asian Foresight Model: the Case of Singapore**

Singapore was founded as a British trading colony in the 19th century. Nowadays, this county is a bustling metropolis in Southeast Asia and a home to one of the world's busiest ports. Singapore received its political independence quite recently, only in 1965, when the country left the Federation of Malaysia and became the Republic of Singapore. By historical standards, it is a very young state, almost like Kazakhstan, but with a smaller territory (679 sq.km) and less population (only 5.6 billion

people). However, *the 2020 Best Countries to Start a Business* ranking assigned the fourth position to Singapore in its list (after Thailand, Malaysia, and China), thus giving a high esteem to the following country's attributes: affordable, bureaucratic, cheap manufacturing costs, connected to the rest of the world, and easy access to capital [*Best Countries to Start a Business*]. In the *World Competitiveness Ranking 2019*, which indicates how economies and companies compete to lay the foundations for sustainable value creation, Singapore takes the first line [*World Competitiveness Ranking 2019*].

However, the most impressive is the fact that Singapore occupies the fifth position in the *2020 Most Forward-Looking Countries* ranking, giving way only to Japan, one of the world's most literate and technically advanced nations, USA, South Korea, and China. It is fair to say that the four Singapore competitors have a better and more advantageous position in many aspects of political, economic, and social life. However, this little Asian country was able to do an excellent job in foreseeing the future and enabling its people to adapt quickly to changes. How did Singapore make its way to the top, securing its place among countries that are the most forward-looking and braced for the future? Is there anything Kazakhstan can learn from its Southeast Asian neighbor?

According to the tenth-anniversary issue of *Foresight* published by the Singaporean Center for Strategic Futures, the history of futures studies in Singapore goes back to the late 1980s when the country government launched some efforts to develop and apply futures thinking for the Ministry of Defense [*Foresight 2019, p.5*]. Very quickly, the officials adopted scenario planning as a tool for long-term policy thinking and development across the Public Service, establishing the Scenario Planning Office within the Public Service Division in 1995. However, scenarios needed translation into real life, therefore, in 2003, the Scenario Planning Office was turned into the Strategic Policy Office that subsequently gave life to <sup>[1]</sup>the Centre for Strategic Futures (CSF) in 2009. Since that time, as points out Lee Hsien Loong, Prime Minister of the Republic of Singapore, the institution has been busy with strengthening national “long-term thinking and planning capabilities by evaluating new methods of futures thinking, identifying black swan events and developing contingency plans free of the demands of day-to-day operational responsibilities” [*Foresight 2019, p.5*].

The recognition on the governmental level that a small, open, and globalized country needs planning for the future(s) was a critical point that rocketed the decisive changes in the state life. To name a few:

1) *Changing the location of a major civilian airport.* Now Changi Airport has the reputation of one of the largest transportation hubs in Asia. Skytrax, a renowned consultancy that runs a major airlines and airports review and rating site, has rated Changi Airport as the World's Best Airport for seven consecutive years since 2013. The strategic foresight planning helped the airport increase its passengers' traffic in 2019 by 4.0 % over the previous year and handle 68.3 million international travelers [*"Changi Airport handled 68.3 million passengers in 2019"* 2020]. Such achievements made it the seventh busiest airport by international passenger traffic in the world and the third busiest in Asia.

*(Almaty airport accounts for half of the passenger traffic and 68% of cargo traffic to Kazakhstan [Almaty International Airport]. Situating on the crossroads between Europe and Asia, it could have served as a major transportation hub connecting countries beyond the borders of Central Asia. While the city government develops the strategy "Almaty-2050," it might be useful to study the Singaporean experience.)*

2) *Land reclamation process.* This method has been used in Singapore since the early 19th century [Glaser, Walsh 1991], the rapid economic growth in the last fifty years pushed the government to reconsider its policy and apply strategic foresight to change a traditional approach [Wrong 2008]. Therefore, Singapore has increased its landmass by 22% since independence in 1965, with land continuously being set aside for future use [Wrong 2008, pp. 120-121]. The government plans to expand the city-state by an additional 7-8% by 2030. Futures thinking is a new Singaporean approach to land reclamation helped to expand the boundaries of the land use. Now it supplements not only Singapore's available commercial, residential, industrial, and governmental properties, but also benefit to the preservation of local historical and cultural communities, as the addition of reclaimed land reduces building pressures [Wrong 2008, p. 26].

*(Though in contrast to Singapore, Kazakhstan does not undergo a shortage of land and its population does not experience exponential growth, strategic foresight can help the Republic to perform effective land management for several sectors, e.g., urban planning or agriculture. Both spheres are interconnected because they deal with two primary resources: population and land. The*

*migration of rural populations puts at stake the labor force capacity of the agricultural sector of Kazakhstan. At the same time, the increase in the urban population challenges liveability, especially in big cities, creating an additional burden for already stressed Kazakh economy.)*

Therefore, the example of Singapore illustrates that the government must have the curiosity and bandwidth to assess what lies ahead and how future changes can affect the country. Through applying long-term thinking, promptly adjusting strategy and policies to meet future challenges and seize new opportunities, the country officials demonstrated their futures literacy.

However, foresight assumes not a destination as its ultimate goal but a process that requires continuous scouting of the horizon to identify new trends and emerging issues using them to challenge prevailing assumptions and approaches. That is why the Singaporean Center for Strategic Foresight focuses on nurturing the futures ecosystem within the government, chiefly through capability development. It runs *FutureCraft* courses at the Civil Service College to equip public officers with futures methods and approaches, thus inoculating a future-oriented mindset [Foresight 2019, pp. 11-12]. Similar attempts have been taken by the Qazaq Research Center for Futures Studies in cooperation with the Academy of Public Administration (Nur-Sultan). Within a year, from April 2019 till April 2020, the QRIFS conducted some seminars for the APA attendees and developed a survey to identify the essential characteristics of future civil service officers. That serves as a foundation for developing the strategic foresight program, the "Futures of Public Service in Kazakhstan."

## **Conclusions**

In the era of continuing disruptions and the accelerating pace of change, the ability to take the long view is more important than ever. The paper presented just a thin slice of a many-layer Futures Studies and Foresight cake. Consuming it requires much courage because more questions than answers arise along the process. Among some urgent for Kazakhstan are the following:

1. How will it meet the demographic challenges and immigration?
2. How will it create value in a global economy?
3. How will it sustain an utterly diverse society providing liveability and equal rights?

4. How will the political leadership sustain legitimacy and national motivation now that the founders are gone, and prosperity and security have been questioned?

5. How will the political leadership navigate complex<sup>[1]</sup> and unstable geopolitics?

Different answers can be given to these questions, thus resulting in numerous scenarios, not all sweet and rose. Therefore, the challenge is to find answers leading to the outcome we would like to have as our Preferable Future.

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## **Financial literacy and Retirement Planning: Probit Model approach.**

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### **Abstract**

The paper is focused on the issue of financial literacy and retirement planning in Kazakhstan. The approached used in the study is Probit Model. The results of this study are interpreted for 2015 and 2019. The study took place in Kazakhstan in 2015 and the same study took place in 2019 in Kazakhstan. There are 529 observations in 2019 and 443 observations in 2015. Questionnaires were distributed and financial literacy question were asked. It was assumed that such characteristics as gender, education level, ethnicity, hometown, income and marital status affect the probability of answering financial literacy questions correctly. The second assumption is that the higher the level of basic financial literacy a person has, the higher the probability of making better financial decisions for retirement plan and delinquency in payment. The results of the study are as follows. Literacy Level and Ethnicity do not influence on the probability of making a Retirement Plan. However, Marital Status and Income Level move the positive attitude toward Retirement Plan. The influence of Gender, Business Education, and Hometown on the probability of Retirement Plan are not continuous, significant in one year and insignificant in another year. However, the non-significant influence of Gender and Business Education in one year show the same signs as the year with significant influence. Those who are males and with low business education level are likely to have retirement plan. The significant negative sign for constant means that a person is most likely not planned retirement if the person is with low literacy and business education levels, who is male and Kazakh, lives in village and is single, and earns none or low income.

**Keywords:** financial literacy, retirement planning, probit model, study, Kazakhstan, marital status, income level

### **Introduction**

Both 2015 and 2019 surveys were performed by KIMEP University student groups as a class project in spring semester of each year, using face-to-face and paper-and-pencil surveys in different

cities and towns of Kazakhstan. Excluding invalid and unsuitable answers for the analysis, the total number of survey responses resulted were 830 for 2015 and 983 for 2019 studies respectively. One of the weaknesses of survey data may be the possibility of mindless responses and random guess works. To reduce possible distortions of mindless answers and random guess works, we cut the middle portion of the literacy scores (2 and 3 points out of 5 points). The results provided us with a total sample of 529 observations for 2019 survey and 443 observations for 2015 survey. Then, we transform the data into 0 and 1 binary observations since we are still not sure the exact differences in financial knowledge between 0 and 1 and between 4 and 5 for literacy scores. We assigned 0 for the literacy scores of 0 – 1 and 1 for the literacy scores of 4 – 5. We simply treat the continuous knowledge difference as a latent variable, and the observation of respondents' knowledge as two discrete alternatives, financially “illiterate” and “literate”. These trimmed binary data are analyzed for a series of probit analysis to find out the probability of being financially literate based on individual's personal profiles and the probabilities of choosing proper financial attitude/behavior based on the level of basic financial literacy level, controlling the impacts of personal profiles. The following hypotheses are investigated:

## **Literature Review**

Hadar et. al. (2013) argue that among the most important decisions that consumers make are those that involve financial products- from the choice of a retirement savings portfolio, to the terms of a home mortgage, to the lease parameters on a car. The author claims that there has been a proliferation of new and complex financial products available to consumers. People simply cannot choose wisely and make sound financial decision due to the low level of financial literacy. As it was mentioned, this topic was discussed in developed countries. Financial education programs aim to provide consumers necessary expertise or knowledge to better manage their financial affairs. In so doing, financial education programs typically focus on increasing consumers' OK (Fernandez, Lynch, and Netemeyer 2014) The term OK has been used to refer to accurate product-related information stored in memory.

As it was mentioned by Lee and Kuttyzhlova (2015), a comprehensive literature review on the financial literacy vs. retirement planning, wealth accumulation, and consumer behavior as well as an assessment of financial literacy program is discussed by Lusardi and Mitchell (2014). Authors

consider financial knowledge as a form of investment in human capital, which may have optimum level to achieve for each individual given heterogeneity of costs and benefits perceived by that person. In their survey of existing studies, they find evidences that the low literacy levels are pervasive around the world, especially in old and young populations, although most participants in the surveys are confident of their financial knowledge without recognizing their own shortcomings. They also find evidences of heterogeneity in literacy levels due to differences in gender and races, income and work status, education levels and family background, and hometown. In assessing the link between the literacy levels and financial behaviors, they conclude that more financially literate people make more and better money decisions and retirement planning, and less financial mistakes and herd behaviors.

Overall, majority of previous studies indicate that there is a positive relationship between financial knowledge and retirement planning. A person with higher level of financial knowledge is most likely prepared better for his or her retirement. Existing literature on financial literacy has also reported that young adults have lower levels of financial literacy, relative to older cohorts Lusardi & Mitchell (2014); Allgood & Walstad (2013). One potential reason for lower levels of literacy among young adults may be due to a lack of experience making financial decisions. Lusardi & Mitchell (2014), however, argue that while older adults score relatively better on measures of financial literacy, they still have low levels of financial literacy. It does not appear that experience, based on age alone, increases financial literacy. This study furthers that understanding by investigating the financial literacy of young adults, ages 18 to 34, and their financial behaviors. The data for the study comes from the National Financial Capability Study (NFCS).

The questions for our study are initially developed by Lusardi and Mitchell (2005) in their survey study of 2004 Health and Retirement Study (HRS). Those basic questions are discussed further in next chapter. Previous research exploring financial literacy in developed countries found out that individuals have relatively low levels of literacy (Lusardi & Mitchell (2014); Allgood & Walstad (2013); Knoll & Houts (2012)). Researchers found out some interesting facts. For example, females have lower scores than males (Jappelli and Padula (2013); Fonseca et al. (2012), Lusardi & Mitchell (2008); individuals with less education also have less financial literacy (Lusardi & Mitchell (2011); Monticone (2010)); and unemployed workers are less financially literate than employed workers (Lusardi and Tuffano (2009)).

## **Methodology**

H1: Personal profiles such as gender, education level, ethnicity, hometown, marital status, and income will influence the probability of answering correct on the basic financial literacy questions.

H2: The higher the level of basic financial literacy a person has, the higher the probability of making better financial decisions for retirement plan and delinquency in payment, and the more frequent in making money-related decisions.

In 2019 survey, Business Education and Hometown are significant for positive impact on basic financial literacy level. A person with more than one year of business education and/or residing in a city is most likely acquired higher level of financial knowledge. Gender, Ethnicity, Marital Status, and Income do not impact significantly on the level of financial literacy. The 2015 survey shows, however, that Females are more likely to have lower scores in financial literacy which is evidenced in many previous studies. There are no significant differences in financial knowledge between Kazakhs and non-Kazakhs, between village and city dwellers, and between Single and Non-Single. The marginal impacts of these variables assuming other variables are in the mean levels are provided in the  $\delta P/\delta X$  columns.

<b>Table 5: Probit Analysis for Financial Literacy</b>					
<b>Dependent Variable: Basic Financial Literacy</b>					
	<b>2019 Survey</b>	<b><math>\delta P/\delta X</math></b>	<b>2015 Survey</b>	<b><math>\delta P/\delta X</math></b>	
<b>Constant</b>	<b>0.274</b> *	-0.069	<b>0.733</b> ***		-0.174
<i>t-stat</i>	1.793		4.291		
<i>p-value</i>	0.073		0.000		
<b>Gender</b>	-0.018	0.004	<b>-0.297</b> **		0.071
<i>t-stat</i>	-0.131		-1.972		
<i>p-value</i>	0.896		0.049		
<b>Business Education</b>	<b>0.500</b> ***	-0.126	<b>0.469</b> ***		-0.118
<i>t-stat</i>	3.783		3.224		
<i>p-value</i>	0.000		0.001		
<b>Ethnicity</b>	-0.160	0.040	0.053		-0.013
<i>t-stat</i>	-1.196		0.351		
<i>p-value</i>	0.232		0.726		
<b>Hometown</b>	<b>0.895</b> ***	-0.226	0.166		-0.039
<i>t-stat</i>	6.544		1.027		
<i>p-value</i>	0.000		0.305		
<b>Marital Status</b>	0.031	-0.008	-0.048		0.012
<i>t-stat</i>	0.228		-0.319		
<i>p-value</i>	0.819		0.750		
<b>Income</b>	-0.217	0.055	<b>0.662</b> ***		-0.157
<i>t-stat</i>	-1.392		2.872		
<i>p-value</i>	0.164		0.004		
<b>Scaled R-Square</b>	0.116		0.08		
<b>Fraction of Correct Prediction</b>	0.805		0.824		

The significance levels are represented as \* for 10%, \*\* for 5%, and \*\*\* for 1% levels.

Table 6: Probit Analysis for Financial Attitude/Behavior (2019)							
Dependent Variable: Retirement Planning, Delinquency in Payment, and Money-decision							
	Retirement Plan	$\delta P/\delta X$	Delinquency	$\delta P/\delta X$	Money Decision	$\delta P/\delta X$	
<b>Constant</b>	<b>-1.008</b> ***	0.313	<b>0.932</b> ***	-0.188	-0.080		0.026
<i>t-stat</i>	-6.294		5.227		-0.537		
<i>p-value</i>	0.000		0.000		0.591		
<b>Literacy Level</b>	0.093	-0.029	<b>0.744</b> ***	-0.150	-0.177		0.058
<i>t-stat</i>	0.739		4.610		1.417		
<i>p-value</i>	0.460		0.000		0.157		
<b>Gender</b>	<b>-0.205</b> *	0.064	0.108	-0.022	<b>-0.384</b> ***		0.124
<i>t-stat</i>	-1.661		0.730		3.161		
<i>p-value</i>	0.097		0.465		0.002		
<b>Business Education</b>	-0.159	0.049	<b>0.302</b> **	-0.061	-0.038		0.012
<i>t-stat</i>	-1.246		1.994		-0.302		
<i>p-value</i>	0.213		0.046		0.763		
<b>Ethnicity</b>	0.109	-0.034	-0.109	0.022	<b>-0.443</b> ***		0.144
<i>t-stat</i>	0.890		-0.741		-3.617		
<i>p-value</i>	0.373		0.458		0.000		
<b>Hometown</b>	<b>0.454</b> ***	-0.141	0.107	-0.022	0.118		-0.038
<i>t-stat</i>	3.587		0.713		0.961		
<i>p-value</i>	0.000		0.476		0.337		
<b>Marital Status</b>	<b>0.297</b> **	-0.092	<b>-0.360</b> **	0.073	<b>0.861</b> ***		-0.279
<i>t-stat</i>	2.341		-2.427		6.683		
<i>p-value</i>	0.019		0.015		0.000		
<b>Income</b>	<b>0.857</b> ***	-0.266	<b>-0.678</b> ***	0.137	<b>0.856</b> ***		-0.277
<i>t-stat</i>	6.214		-4.279		5.794		
<i>p-value</i>	0.000		0.000		0.000		
<b>Scaled R-Square</b>	0.153		0.132		0.234		
<b>Fraction of Correct Prediction</b>	0.718		0.832		0.669		

The significance levels are represented as \* for 10%, \*\* for 5%, and \*\*\* for 1% levels.

In the 2019 survey, the probability of Retirement Plan is significantly negatively impacted by Gender and positively impacted by Hometown, Marital Status, and Income. Females are less likely have retirement plan while those who are living in cities, married or non-single, and higher income are more likely planned retirement. The marginal impact of Income is the highest, showing the movement from higher income group to lower or no income group reduces the probability of retirement plan by 24%. Interestingly, the Literacy Level and Business Education have no significant impacts on retirement plan. Again, we suspect that large number of students who have more financial knowledge and higher business education but not yet planned for retirement are sampled in this survey. The Delinquency in Payment is significantly positively impacted by Literacy Level and Business Education, but significantly negatively impacted by Marital Status and Income. A person

with higher financial knowledge and higher financial literacy is most likely never or rarely delinquent in payment. However, a person in the higher income group and/or married/non-single has higher probability of delinquencies in payment. This high probability of delinquency for higher income group may be due to the unexpected deterioration of economy caused by oil price collapse in 2014 and substantial currency depreciation in 2015. Gender, Ethnicity, and Hometown do not impact the probability of being planned on retirement. Strong marginal impacts are observed in the level of financial literacy (15%) and Income (13.7%).

Those who are Females, and/or non-Kazakhs are making less money-related decisions compared to Males and Kazakhs, and those who are married or non-single and make higher income most likely make frequent money-related decisions. Financial Literacy level and the level of Business Education do not differentiate in making the frequency of money-related decisions. Again, as in Retirement Plan, we suspect that large number of students were sampled in this survey. In addition, the Hometown also did not impact the probability of making frequent money-related decisions.

Table 7: Probit Analysis for Financial Attitude/Behavior (2015)						
Dependent Variable: Retirement Planning, Delinquency in Payment, and Money-decision						
	Retirement Plan	$\delta P/\delta X$	Delinquency	$\delta P/\delta X$	Money Decision	$\delta P/\delta X$
<b>Constant</b>	<b>-0.479</b> ***	0.157	<b>1.759</b> ***	-0.384	<b>-0.264</b> *	0.091
<i>t-stat</i>	-3.005		7.995		-1.695	
<i>p-value</i>	0.003		0.000		0.090	
<b>Literacy Level</b>	-0.036	0.012	<b>-0.313</b> *	0.068	0.142	-0.049
<i>t-stat</i>	-0.244		-1.837		0.978	
<i>p-value</i>	0.807		0.066		0.328	
<b>Gender</b>	-0.027	0.009	<b>0.274</b> *	-0.060	-0.128	0.044
<i>t-stat</i>	-0.205		1.752		-0.995	
<i>p-value</i>	0.838		0.080		0.320	
<b>Business Education</b>	<b>-0.302</b> **	0.099	-0.189	0.041	0.011	-0.004
<i>t-stat</i>	-2.127		-1.127		0.077	
<i>p-value</i>	0.033		0.260		0.939	
<b>Ethnicity</b>	-0.147	0.048	<b>-0.268</b> *	0.059	<b>0.313</b> **	-0.107
<i>t-stat</i>	-1.113		-1.761		2.407	
<i>p-value</i>	0.266		0.078		0.016	
<b>Hometown</b>	-0.195	0.064	<b>-0.313</b> *	0.068	0.151	-0.052
<i>t-stat</i>	-1.393		-1.922		1.101	
<i>p-value</i>	0.164		0.055		0.271	
<b>Marital Status</b>	<b>0.462</b> ***	-0.151	<b>-0.716</b> ***	0.156	<b>0.829</b> ***	-0.284
<i>t-stat</i>	3.495		-4.308		6.197	
<i>p-value</i>	0.000		0.000		0.000	
<b>Income</b>	<b>1.137</b> ***	-0.372	0.060	-0.013	0.094	-0.032
<i>t-stat</i>	6.884		0.332		0.570	
<i>p-value</i>	0.000		0.740		0.569	
<b>Scaled R-Square</b>	0.176		0.091		0.122	
<b>Fraction of Correct Prediction</b>	0.711		0.833		0.666	

The significance levels are represented as \* for 10%, \*\* for 5%, and \*\*\* for 1% levels.

In 2015 survey, the probability of being prepared for Retirement Plan was impacted significantly negatively by Business Education, and significantly positively by Marital Status and Income. A person with higher business education level is most likely not planning for retirement. Together with the non-significance of Literacy Level in 2015 and 2019 surveys and non-significance of Business Education in 2019 survey, we can interpret that the retirement plan is not influenced by business education nor financial literacy level. Rather, the married/non-single person and/or higher income earner is strongly likely to prepare the retirement plan. The marginal impact of the Income is the highest on Retirement Plan by showing -0.372. Assuming other variables are in the mean values, a person whose income is less than \$25,000 or zero is not prepared for retirement at 37% more probability compared to a person with higher than \$25,000 income.

Table 8: The Impact of Literacy Level and Personal Profiles on Financial Attitude/Behavior							
(+: Positive attitude/behavior, -: Negative attitude/behavior)							
		2019	2015	2019	2015	2019	2015
		Retirement Plan		Delinquency		Money Decision	
<b>Constant</b>		-	-	+	+		-
<b>Literacy Level</b>	Low			-	+		
	High			+	-		
<b>Gender</b>	Male	+			-	+	
	Female	-			+	-	
<b>Business Education</b>	None/Low		+	-			
	High		-	+			
<b>Ethnicity</b>	Kazakhs				+	+	-
	Non-Kazakhs				-	-	+
<b>Hometown</b>	Village Dweller	-			+		
	City Dweller	+			-		
<b>Marital Status</b>	Single	-	-	+	+	-	-
	Married/Non-Single	+	+	-	-	+	+
<b>Income</b>	None/Low	-	-	+		-	
	High	+	+	-		+	

The Delinquency in payment was significantly negatively impacted by Literacy Level, Ethnicity, Hometown, and Marital Status. Interesting point in here is that a person with higher Literacy score tends to delinquent in payment more frequently than a person with lower Literacy score. This result is opposite of our expectation and conflicting with the result shown in 2019 survey. This result may indicate the experiences of massive loan defaults and economic hardships after the financial crisis of 2008-2009. Non-Kazakhs, those who reside in cities, and those who are married/non-single are more frequently delinquent in payments. Females are less likely delinquent in payment compared to males in 2015 survey.

Non-Kazakhs are making more money-related decisions compared to Kazakhs in 2015 survey, which is an opposite finding of 2019 survey. Married/Non-Single people are making more money-related decisions compared to single people which are consistent with the result in 2019 survey. Again, Literacy Level and Business Education do not influence on the probability of making frequent money-related decisions.

Literacy Level and Ethnicity do not influence on the probability of making a Retirement Plan. However, Marital Status and Income Level move the positive attitude toward Retirement Plan. The influence of Gender, Business Education, and Hometown on the probability of Retirement Plan are not continuous, significant in one year and insignificant in another year. However, the non-significant influence of Gender and Business Education in one year show the same signs as the year with significant influence. Those who are males and with low business education level are likely to have retirement plan. The significant negative sign for constant means that a person is most likely not planned retirement if the person is with low literacy and business education levels, who is male and Kazakh, lives in village and is single, and earns none or low income.

Literacy Level, Business Education, and Hometown are not significant in influencing the frequent decision-making of money-related decisions. Married/non-single people make more frequent money decisions compared to singles in both surveys. Ethnicity shows conflicting results between two years, Kazakhs make more money-related decisions compare to non-Kazakhs in 2019 survey, and the opposite is true in 2015 survey. The impacts of Gender and Income are not continuous. Only in 2019 survey, Males and high-income earners make more frequent money-related decisions.

## **Conclusion**

The study reports that in 2019 survey, Business Education and Hometown are significant for positive impact on basic financial literacy level. A person with more than one year of business education and/or residing in a city is most likely acquired higher level of financial knowledge. Gender, Ethnicity, Marital Status, and Income do not impact significantly on the level of financial literacy. The 2015 survey shows, however, that Females are more likely to have lower scores in financial literacy which is evidenced in many previous studies. Interestingly, the Literacy Level and Business Education have no significant impacts on retirement plan. The Delinquency in Payment is significantly positively impacted by Literacy Level and Business Education, but significantly negatively impacted by Marital Status and Income in 2019 survey. A person with higher financial knowledge and higher financial literacy is most likely never or rarely delinquent in payment. However, a person in the higher income group and/or married/non-single has higher probability of delinquencies in payment. This high probability of delinquency for higher income group may be due to the unexpected deterioration of economy caused by oil price collapse in 2014 and substantial

currency depreciation in 2015. The Literacy Level shows conflicting results between two years in Delinquency in Payments behavior. Highly literate people delinquent less frequently in 2019 while the opposite is true in 2015. Singles are less likely delinquent in payments compared to married/non-single people in both surveys. As of 2019 report, Financial Literacy level and the level of Business Education do not differentiate in making the frequency of money-related decisions. We suspect that large number of students were sampled in this survey. In addition, the Hometown also did not impact the probability of making frequent money-related decisions.

In 2015 survey, the probability of being prepared for Retirement Plan was impacted significantly negatively by Business Education, and significantly positively by Marital Status and Income. A person with higher business education level is most likely not planning for retirement. Together with the non-significance of Literacy Level in 2015 and 2019 surveys and non-significance of Business Education in 2019 survey, we can interpret that the retirement plan is not influenced by business education nor financial literacy level. Rather, the married/non-single person and/or higher income earner is strongly likely to prepare the retirement plan. The study of 2015 reports that the Delinquency in payment was significantly negatively impacted by Literacy Level, Ethnicity, Hometown, and Marital Status. Interesting point in here is that a person with higher Literacy score tends to delinquent in payment more frequently than a person with lower Literacy score. This result is opposite of our expectation and conflicting with the result shown in 2019 survey. This result may indicate the experiences of massive loan defaults and economic hardships after the financial crisis of 2008-2009. Literacy Level and Ethnicity do not influence on the probability of making a Retirement Plan. However, Marital Status and Income Level move the positive attitude toward Retirement Plan. The influence of Gender, Business Education, and Hometown on the probability of Retirement Plan are not continuous, significant in one year and insignificant in another year. However, the non-significant influence of Gender and Business Education in one year show the same signs as the year with significant influence. Those who are males and with low business education level are likely to have retirement plan. The significant negative sign for constant means that a person is most likely not planned retirement if the person is with low literacy and business education levels, who is male and Kazakh, lives in village and is single, and earns none or low income.

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## **Social Capital and Lending Methodology in Microfinance Industry**

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Microfinance institutions (MFIs) help alleviate poverty by providing loans to the poorest clients who are viewed to be too risky by regular financial institutions. There are two types of lending methodology employed by MFIs: group and individual. Like any financial institution, MFIs are subject to adverse selection and moral hazard from customers. Some claim that the use of group liability can be useful in overcoming these informational asymmetries. However, group lending is generally employed only in developing regions and even there not universally. This research attempts to establish what factors drive the choice of lending methodology by MFI in different countries. We show that there are two important determinants that are essential for the choice of group lending over lending to individuals: the strength of contract enforcement in a country and the intensity of social connections among group members. The former affects the likelihood of individual borrowers' compliance with contract terms, thus facilitating individual lending, while the latter allows groups to effectively monitor their members, promoting group liability. Our findings suggest that group lending is more likely to be employed in countries with weak contract enforcement and strong social connections within particular groups.

Keywords: microfinance, lending methodology, social capital, contract enforcement

JEL: G21, G28, C11, C34, C51

### **Introduction**

Microfinance institutions (MFIs) help alleviate poverty by providing loans to the poorest clients who are viewed as too risky by regular financial institutions. However, like any financial institution, MFI is subject to moral hazard and adverse selection problems from its customers (Armendariz and Labie

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2011). Consequently, in order to reduce their risks, MFIs incorporate various innovations such as substitution of physical collateral by social collateral, and early and frequent repayments. Indeed, it is claimed that social collateral created through group lending offers some assurance that clients will not delinquent in repayments (Conning 1996).

The rationale behind the group lending approach is based on the fact that poor clients generally are incapable of providing conventional collateral for an individual loan. In this case, poor individuals who do not have adequate collateral can become creditworthy by establishing groups to obtain loans (Armendáriz and Morduch 2010). In group lending, borrowers are grouped together, and participants are jointly liable for each other's loans, although "liability" here does not have to take the form of repayment of the loan. Instead, it can result in reputational consequences with the group members being unable to obtain loans if one of the members defaulted. The group may consist of 3 or more members. Groups use peer pressure and collective responsibilities form social collateral instead of physical collateral (Haldar and Stiglitz 2016). In contrast, in individual lending, each customer has sole responsibility for repayment. The individual borrowers can effectively run their businesses and manage their earnings without any interference or pressure from their peers.

Group lending appears to have significant advantages in solving issues associated with information asymmetry in credit markets. With group liability, members have an incentive to screen other members to ensure that only trustworthy people are accepted into the group. Additionally, members have incentives to make sure funds are properly invested and adequate efforts are exerted. Since groups are usually formed based on the members' social connections, selection of group members eases the process of screening and excludes risky borrowers from loan participation (Ghatak 1999). Joint liability also provides members with an incentive to monitor other members of the group (Laffont and Rey 2003). Finally, peer pressure of group members to repay loans, enhances enforcement and works much better than legal enforcement in countries where formal legal systems are ineffective. Thus, group lending, with its selection and monitoring power, could simultaneously solve problems of moral hazard and adverse selection.

This seemingly powerful method of lending, however, is not employed everywhere around the world, especially not in more developed countries. Moreover, empirical findings demonstrate that group lending is not always superior to individual lending (Nandhi 2012). That raises the question why group lending apparently works in some regions and not in others. Answering this question is important because, on the one hand, a substantial number of MFIs around the world have devoted their efforts to replicate group lending (Yunus and Weber 2009) but on the other hand, many

MFIs are using individual lending in a number of countries (Attanasio et al. 2015; Haldar and Stiglitz 2016).

There are two important factors that are central in explaining the existence of group lending: the effectiveness of contract enforcement and the strength of social connections among group members. Other things equal, there is little reason for individual borrowers to subject themselves to the constraints of being monitored or any other interference by their peers, and borrowers would prefer individual lending. Therefore, if contract enforcement by the legal system can be done at relatively low cost to MFIs, we would expect individual lending to dominate. However, if legal contract enforcement is problematic, MFIs would need to rely on other enforcement mechanisms such as joint responsibility by a group of lenders. The effectiveness of joint responsibility depends on the quality of social connections among group members that determine the strength of peer pressure and the costs of monitoring by borrowers. Both the cost of legal contract enforcement and the quality of social connections within groups vary across countries. This logic implies that group lending is more likely to be employed in countries with relatively strong social connections within particular groups in a society (i.e., the so-called “bonding” or “closed” social capital) and high legal enforcement cost. This combination is usually found in less developed countries. In more advanced economies, individual lending is more prevalent.

To our knowledge, there is no study that investigates the determinants of MFIs lending methodology across countries. This work is undertaken in an attempt to shed a light on this issue. We show that the type of social capital and the quality of contract enforcement are central factors that explain the choice of lending strategy in different countries.

The rest of the article is organized as following: Section 2 provides brief overview of existing literature, Section 3 outlines the theoretical framework, Section 4 describes the methodology and data used in analysis, Section 5 discusses the results, and Section 6 concludes.

## **2. Literature Review**

Several strands of literature are related to the lending methodology employed by MFIs. The first strand is the theoretical views on group versus individual lending contracts. Theorists argue the superiority of group lending over individual lending in overcoming problems of selection and monitoring. This superiority results from the personal information that clients possess about each other, which is typically not available to lenders. (Ghatak 1999) discusses how peer selection in group lending helps mitigate adverse selection and moral hazard. He argues that under certain conditions, joint liability lending may allow for Pareto superior outcome under information

asymmetry in credit markets. That is, joint liability can sometimes improve welfare of both risky and safe borrowers. (Varian 1990) demonstrates that groups with their selection and monitoring power end up with less risky borrowers, directly reducing moral hazard. That leads to a lower equilibrium interest rate and high effort by the agent and, consequently, may benefit both the lender and the borrowers.

The second strand of literature is related to empirical evidence that examines the theoretical implications of group lending. Even though the advantages of group lending have been explored from various theoretical perspectives, the empirical studies do not always support those claims. Empirical studies that compare the effectiveness of group lending with individual lending with respect to repayment, development of entrepreneurship, and welfare, do not agree with each other. In Mongolia, only access to group lending increases consumption and entrepreneurship, but access to individual lending does not (Attanasio et al. 2015). In Kenya, Kodongo and Kendi (2013) found that group lending is better in mitigating loan delinquency than individual lending. However, field research in the rural Philippines found no statistical difference in terms of repayment rate between the two types of lending (Giné and Karlan 2014). Moreover, a high repayment rate at the group level may hide what is going on at the individual level inside the groups. A significant proportion of group members in India default on their loans, although the group as a whole maintains its repayment (Nandhi 2012; Haldar and Stiglitz 2016).

Empirical research is also ambiguous with respect to profitability of the two types of lending. While Cull et al. (2007) found that MFIs that focus on providing loans to individuals are more profitable, another study by Kar (2011) shows that MFIs can increase their profitability and self-sufficiency through implementing solidarity-group loan method. Cull et al. (2007) find that the proportion of poor clients and female borrowers in the loan portfolio is lower in MFIs with individual lending than in MFIs that focus on lending to groups. It also suggests that individual-based MFIs focus more on wealthier clients, a phenomenon known as “mission drift”.

The third strand is related to monitoring and within group enforcement costs. Stiglitz (1990) argues that one of the key problems faced by MFIs is ensuring that funds are properly invested, and enough efforts are exerted. Stiglitz (1990) shows that giving group members the responsibility to monitor each other could be a partial solution to this issue. Since group members are supposed to repay loans for any defaulting group members or face a penalty in the form of inability to obtain loans in the future, it creates an incentive for peer monitoring. Besley and Coate (1995) investigate the role of group lending in preventing strategic defaults when a borrower is able to repay the loan

but decides not to do it. They argue that group lending gives an incentive to successful members to contribute for unsuccessful ones when the latter receive poor returns on their projects. As a result, repayment is more frequent and, hence, the interest rate can be made lower, making group lending contracts potentially more efficient than individual lending contracts. However, group lending contracts might induce the whole group to default, even though some group members would have paid their loan under individual lending contracts.

Some empirical studies support the importance of monitoring and within group enforcement. (Wydick 1999) provides evidence that group lending works due to social cohesion and better information exchange by assessing the frequency of moral hazard within credit groups in Guatemala. This result is supported by Hermes et al. (2005) who study the occurrence of moral hazard among credit groups in Eritrea and observe that peer monitoring and social ties are key factors influencing the frequency of moral hazard among groups. Nandhi (2012) shows that in India around 20% of clients defaulted on their loan, and more than 25% of them were willful, or strategic, defaulters after getting a greater loan. Consequently, the defaulter's loan became a financial burden for other members, which increased their effective rate of interest from below 20% to more than 30%, depending on how many defaulters were in the group. Gine et al. (2013) finds that the probability of borrowers' default is higher if a fraction of defaulters in their group rises. The members who repaid exerted group pressure on those who wanted to default, but their ability to do so was limited by tenuous group cohesion. Moreover, the existence of willful defaulters also indicates that enforcement is not always effective. Therefore, monitoring and within group enforcement costs are crucial determinants of group lending success, and they need to be seriously considered.

The literature overview reveals the lack of research related to the choice of MFIs' lending methodology. We undertake our research in an attempt to determine factors that favor the choice of group lending by MFIs.

### **3. Methodology**

This section describes different lending methodologies employed by MFIs and various dimensions of social capital. It also discusses the role of social capital and contract enforcement on the choice of lending methodology.

#### **3.1 Individual and Group Lending**

As was stated earlier, for MFIs demand for and supply of group vs. individual lending depend on two important factors: the effectiveness of contract enforcement and the strength of social connections among group members. Enforcement costs that are carried by MFIs to ensure that the

individual clients repay the loan determine the willingness of MFIs to use individual lending. In case of high legal enforcement costs, MFIs are more willing to accept group lending (solidarity and village banking) as a part of their risk management. Generally, legal enforcement cost depends on the countries' law enforcement practice. The MFIs would have difficulty collecting loan repayments unless the local authorities enforce law and order relatively promptly and efficiently. In countries with weak contract enforcement, the MFIs lending to individuals would have to incur large enforcement costs, making this type of lending unsustainable. Therefore, in countries with weak contract enforcement, MFIs are more likely to employ group lending as a risk management tool. On the contrary, in countries with strong contract enforcement, MFIs would prefer to employ individual lending. Thus, the enforcement costs define the demand for group lending.

Monitoring costs also play an important role in explaining the supply of group lending because one of the main advantages of group lending consists in the ability of group members to monitor each other's performance. The lower monitoring costs within a group, the greater is the advantage of group lending. Monitoring costs depend on social ties and cohesion among group members.

Group lending enables borrowers who previously were excluded from access to a more traditional banking sector to create 'social collateral' to replace the physical collateral and obtain access to credit despite not having the latter (Conning 2000). The effectiveness of social collateral depends on social capital, which is the value of social norms of mutual trust to individuals and society, reciprocity, and social networks (Putnam 2001). Putnam (2001) introduces two dimensions of social capital: bonding and bridging. Bonding social capital is defined as ties among people within groups who are similar in some respect, supports reciprocity and mobilizes solidarity. Bridging social capital, on the other hand, describes the ties among people who might be dissimilar though share some commonality such nationality, race or religion. With respect to group vs. individual lending, we conjecture that bonding social capital facilitates group cohesion and thus lowers the costs of group monitoring while bridging social capital reduces opportunistic behavior by individuals, lowering legal enforcement costs. Thus, bonding social capital determines the supply of group lending while bridging social capital defines the demand for group borrowing.

### **3.2 Variables Measurement**

Lending methodology refers to how the loans are provided to the clients of MFI, identification, selection, group forming of clients, and finally, which methods are used to offer services to the customers. There are three basic models of lending employed by MFIs: solidarity group, village

banking and individual. In our analysis, we focus on group and individual lending methodologies. Therefore, two types of lending are included to capture the effect of lending methodology: INDIVIDUAL and GROUP, where GROUP lending incorporates both solidarity group and village banking. These variables show the proportion of MFIs in the country that employ the corresponding lending methodology. Those MFIs that offer both group and individual loans are included into GROUP category so that INDIVIDUAL lending incorporates MFIs offering only individual loans. Data on lending methodology employed by MFIs come from Microbank Bulletin (MBB). Information is provided for 450 MFIs from 71 countries for the period of 2006-2010.

The World Values Survey (WVS) has been used to evaluate the social capital in different countries. This global research project explores people's values and beliefs and provides information on tolerance of foreigners and ethnic minorities, attitudes toward the family, and culture diversity along with attitudes about trust, community life, and government institutions. For the purpose of this research we focus our attention on the degree to which survey respondents trust different groups of people. Theoretical descriptions of bonding and bridging social capital by Szreter and Woolcock (2004) have been employed to identify thirteen WVS survey questions to measure different dimensions of social capital.

To measure bonding social capital, we employ three questions that are related to trust within groups. These questions are related to participants' trust in people they know personally and in people within their family and neighborhood (1-trust completely, 2-somewhat, 3-not very much, 4-no trust at all).

To measure bridging social capital, we select ten questions related to general social trust, reciprocity and civic responsibility. Some questions ask participants to evaluate their trust in people that they met for the first time, people of another nationality and people of another religion. Responses to these questions use a 4-point scale (1-trust completely, 4-not trust at all). Another question, "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?" uses a binary response scale (1-most people can be trusted, 2-need to be very careful). The question "Most people would try to take advantage of you if they got a chance or would they try to be fair" has a 10-point response scale (1-would take advantage, 10-try to be fair). Other questions ask participants to mention groups from a list that they would not like to have as neighbors: people of a different religion, people who speak another language, people of a different race, and immigrants. Based on how many of these four groups are mentioned by the respondent (0-no, 1-yes), we create a score between 0 and 4.

To measure civic responsibility, we select four questions related to justification of some actions: cheating on taxes if you have a chance; avoiding to pay a fare to use public transport; claiming government benefits to which you are not entitled; someone accepting a bribe in the course of their duties. Responses to these questions use a 10-point scale (1-never justifiable,10-always justifiable).

The following list presents WVS questions we have selected for analysis.

### **Bonding social capital**

- Trust people in neighbourhood
- Trust people in family
- Trust people known personally

### **Bridging social capital**

- Trust people met for the first time
- Trust people of another nationality
- Trust people of another religion
- Most people can be trusted
- Most people try to be fair
- Would not mind having as neighbours: people of different race, different religion, different language, immigrants
- Not justified to claim government benefits to which you are not entitled
- Not justified to avoid a fare on public transport
- Not justified to cheat on taxes if you have the chance
- Not justified to accept a bribe

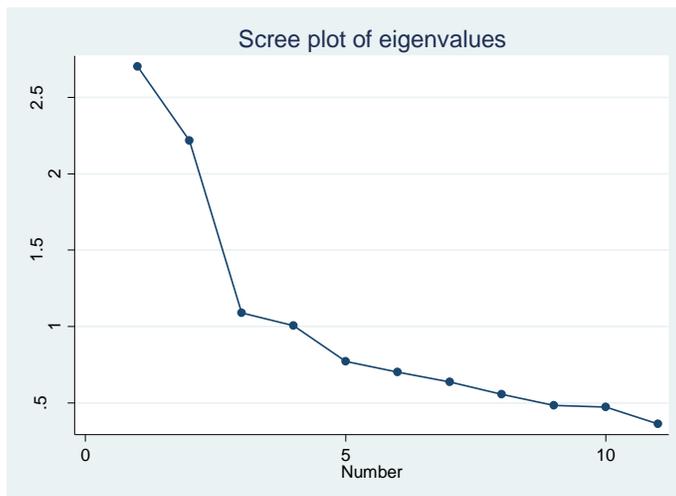
Due to opposite order of responses to different questions, some of the responses were reversed so that higher scores always reflect higher social capital.

We begin with the exploratory factor analysis (EFA) using principal component extraction with promax rotation. The EFA procedure is typically used in the case of relatively large set of variables, aiming to develop a scale to measure a particular concept through the identification of latent constructs (Finch and West, 1997; Fabrigar et al., 1999; Norris and Lecavalier, 2010). These unobserved latent constructs are imputed from other observed or directly measured variables via a formal procedure.

Next, we employ confirmatory factor analysis (CFA) to test the consistency of the factors with the nature of the proposed construct. The aim of conducting the CFA is to test the fit of the data

and hypothesized research model (Kline, 2010). The CFA is conducted to confirm the validity and reliability of latent variables (factors).

Prior to factor analysis we perform tests for appropriateness of factor analysis such as Bartlett's test for sphericity and the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy. Both tests indicate the appropriateness of factor analysis: P-value=0.000 of Bartlett test is less than 0.05 while KMO=0.898 is higher than 0.5. Next, we perform exploratory principal factor analysis to identify the number of factors for the analysis. Based on the scree plot of eigenvalues (see the graph below) that should be higher than 1, only four factors are kept for further analysis.



Stevens (2009) recommends retaining factors with loadings higher than 0.4. Moreover, the difference in factor loadings should be greater than 0.2 in order for them to be unique. After analyzing factor loadings for all items, some of them are dropped from analysis. Specifically, we drop the following variables:

- Trust people of another religion
- Would not mind having as neighbors: people of different race, different religion, different language, immigrants
- Most people try to be fair

Next, we perform factor analysis on the remaining ten items with consequent oblique rotation of factors assuming that constructs would be correlated. As a result, we retain three factors.

Table 1. Rotated factor loadings (pattern matrix)			
Item	Narrow Trust	General Trust	Integrity
Trust people in family	0.875		

Trust people in neighborhood	0.657		
Trust people known personally	0.513		
Most people can be trusted		0.648	
Trust people met for the first time		0.792	
Trust people of another nationality		0.752	
Not justified to claim government benefits to which you are not entitled			0.748
Not justified to avoid a fare on public transport			0.786
Not justified to cheat on taxes if you have the chance			0.825
Not justified to accept a bribe			0.804

Based on the content of the remaining factors we call them Narrow Trust, General Trust and Integrity. Narrow Trust social capital includes all items that reflect aspects of trust within a group (might include a family, neighbors, friends, etc.) while General Trust social capital includes items assessing trust for people outside of own group. Integrity social capital includes all items related to attitude toward civic duty and responsibility such as acceptance of all kinds of cheating and fraud. The Table 1 represents factor loadings of items retained for analysis (loadings of items not in the factor are omitted).

Next, we calculate Cronbach's alpha coefficients for each factor to measure the reliability of factors and their internal consistency, that is, how closely the items within a factor are related to each other (see table below).

Table 2. Cronbach alpha coefficient	
Factor	Scale reliability Cronbach alpha coefficient
Narrow Trust	0.69
General Trust	0.74
Integrity	0.79

Stevens (2009) suggests that in exploratory factor analysis the values of Cronbach alpha coefficient should be greater than 0.7. Based on that, variables in all factors are sufficiently closely related as a group and, therefore, could be carried on for further analysis.

We use World Governance indicators (WGI) Rule of Law data as a proxy for the strength of contract enforcement. The Worldwide Governance Indicators aggregate a large number

of surveys and other cross-country assessments of governance. They are based mostly on the perceptions of a very wide group of respondents, including firms, individuals, and public officials. Rule of Law captures “perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence” (Kaufmann et al. 2009).

Another more general and very interesting question is how formal (contract enforcement) and informal (peer pressure and monitoring) institutions interact with each other. The form of relationship between formal and informal enforcement is related to the type of social capital that explains the morality present in the community. Greif and Tabellini (2017) and Tabellini (2008) distinguish between two types of morality: limited and generalized. Limited morality is present in smaller more homogeneous communities while generalized could be found in bigger heterogeneous communities. Greif and Tabellini (2017) state that in small groups moral obligations apply only toward group members and, consequently, they are stronger but limited in scope. In big communities, as stated by Greif and Tabellini (2017), moral obligations are generalized towards all citizens, therefore they are weaker.

Moreover, institutional mechanisms in different communities would be also different, while small group enforcement mainly relies on informal institutions, the bigger community relies more on formal enforcement procedures. Cooperation within the small group is sustained by moral obligations and reputational incentives that discourage cheating, therefore, enforcement through formal institutions plays a small role. Therefore, in small communities the lack of contract enforcement induces lenders to rely more on social ties among group members. Thus, lower contract enforcement should be coupled with higher social ties among group members to keep group lending relatively more attractive. On the other hand, big communities consist of members of many lineages, thus, there is a need for formal enforcement to sustain cooperation. In this case, formal enforcement becomes more important for a group formation and sustainability. Thus, higher general morality should be coupled with higher formal enforcement to keep group lending relatively more attractive.

Indeed, small group cooperation is sustained by moral obligations and reputational incentives among group members. Consequently, we expect a positive relationship between group lending and limited morality social capital. Since Narrow Trust reflects all aspects of trust within a group, we use Narrow Trust social capital as a measure that represents the limited morality within a small group and reflects the cohesion within a community. Narrow Trust mitigates moral hazard through peer monitoring and pressure, and all else equal makes group lending more appealing. As for the general

morality, there are two alternative types of social capital reflecting the generalized morality—General Trust and Integrity. General Trust in bigger communities has wide scope since it is applied not just towards friends or relatives but to everyone. On the other hand, Integrity represents the attitude of someone towards other community members thus reflecting this person’s reliability and honesty. Accordingly, the first social capital, General Trust, is related to someone’s assessment of surrounding society, while the second, Integrity, reflects someone’s own views. Since general morality represents moral obligations generalized towards all citizen, it has weaker power in motivating cooperation compared to moral obligations within small groups. Thus, we expect a negative relationship between group lending and general morality social capital.

To capture the nature of interaction between formal and informal enforcement in the community we employ three factors related to group borrowing. First, formal contract enforcement measured by World Governance indicators, takes into account the quality and strength of contract enforcement in the country. In countries with strong contract enforcement, formal institutions mitigate the moral hazard allowing MFIs to rely on individual lending.

Other two factors refer to types of social capital explaining the morality in the community. Narrow Trust represents all aspects of trust within a group and therefore reflects the limited morality within the society. As for generalized morality, two alternative types of social capital are connected with this type of morality—General Trust and Integrity. Integrity social capital reflects moral obligations of the respondents (moral standards from inside) while general trust reflects the moral expectations of the respondents (moral standards from outside). Since Integrity reflects someone’s moral obligations towards other people rather than moral expectations of others community members, we consider Integrity to be more substantial in reducing opportunistic behavior by individuals, and thus lowering legal enforcement costs. Therefore, out of two alternatives, we employ Integrity to represent the generalized morality prevailed within the community. As Integrity represents the person’s reliability and honesty, Integrity works as an informal institution that supports the individual lending. Therefore, two factors, Contract Enforcement and Integrity, are representing formal and informal institutions that make group lending less needed, and they both work on the demand side of group lending. Narrow Trust, on the other hand, makes group lending more appealing and therefore works on the supply side of group lending.

We capture the nature of interaction between formal and informal enforcement by introducing the pairwise interactions between Contract Enforcement, Integrity and Narrow Trust as well as their triple interaction. Interaction between Integrity and Narrow Trust captures how the

limited and generalized morality interact with each other in forming the moral standards in the community. Since both Contract Enforcement and Integrity both work on the demand side of group lending, the interaction between them captures how formal and informal contract enforcement means interact with each other in shaping demand for collective lending. When both of these formal and informal institutions are failing, then there is a demand for collective borrowing. This means that the effect of Narrow Trust, the supply factor for group borrowing, on group lending should be positive and significant only when formal and informal contract enforcement are failing. Thus, we expect the negative sign for the triple interaction term.

Several control variables are included into the empirical model. Large bulk of literature stresses the positive effect of country's financial sector (Rajan and Zingales 2003) on its overall performance. Financial development reflects how easy funds are accessible for any entrepreneur with a sound project, as well as the confidence of investors in earning an adequate return. The argument is that financial sector provides its services without essential loss through the moral hazard, adverse selection or transaction costs. Therefore, financial development should also be considered when analyzing the lending methodology. The information on country's financial development comes from the World Bank Financial Development Database. These data include measures of depth, access, efficiency, and stability of financial systems.

Another control variable, GINI coefficient, measures income inequality in the country, and thus reflects a lack of collateral among the poor and, therefore, is likely to play a role in the choice of lending methodology. The coefficient ranges from 0 (or 0%) to 1 (or 100%), where 0 represents perfect equality and 1 represents perfect inequality. We employ World Bank estimates of the GINI coefficients expressed in percent.

Finally, we use World Bank data for real per capita GDP to account for differences in the degree of development across countries.

Table in Appendix reports the descriptive summary statistics of the key variables used in our analysis. Our sample consists of 56 countries. Data on lending methodology employed by MFIs is provided for 450 MFIs for the period of 2006-2010. Accordingly, data on social capital from World Values Survey is collected for the period of 2006-2010. The list of countries included into the research is provided in the Appendix.

## **Results**

Results of empirical estimation for group lending are presented in Table 3. The first column uses only our main independent variables in order to reduce potential endogeneity. Regressions in

the other columns add some control variables as well as interaction terms. The results of estimation show that social capital indeed plays an important role in employment of group lending by MFIs. More specifically, our results indicate that narrow trust social capital is positively associated with group lending. Since Narrow Trust reflects all aspects of trust within a group, the stronger are the ties among group members, the higher the probability of group lending.

Table 3. Estimation results for group lending

VARIABLES	(1)	(2)	(3)	(4)
CONTRACT ENFORCEMENT	-0.080 (0.082)	-0.190*** (0.067)	-0.094 (0.075)	-0.084 (0.099)
INTEGRITY	-0.054 (0.125)	-0.476** (0.215)	-0.242 (0.228)	-0.564*** (0.160)
NARROW TRUST	0.205 (0.156)	0.834** (0.358)	0.398 (0.272)	0.981*** (0.292)
GENERAL TRUST	-0.214 (0.175)	-0.687** (0.272)	-0.246 (0.179)	-0.435* (0.225)
INTEGRITY # CONTRACT ENFORCEMENT			-0.547 (0.429)	-0.504 (0.402)
NARROW TRUST # CONTRACT ENFORCEMENT			0.270 (0.292)	0.504 (0.414)
NARROW TRUST#INTEGRITY			0.223 (0.265)	-1.309** (0.617)
NARROW TRUST#INTEGRITY# #CONTRACT ENFORCEMENT				-4.695** (1.703)
FINANCIAL DEVELOPMENT		0.672 (0.415)		0.765** (0.301)
GINI COEFFICIENT		0.001 (0.008)		0.001 (0.007)
GDP		-0.212*** (0.069)		-0.165** (0.061)
Constant	0.190*** (0.052)	1.695*** (0.502)	0.176*** (0.055)	1.345** (0.497)

Standard errors in parentheses

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

As for integrity and general trust social capital, they reflect moral standards prevailing within society. Both coefficients for integrity and general trust are negative and significant, indicating that countries with higher moral standards tend to favor individual lending. Integrity social capital reflects moral obligations of the respondents while general trust reflects the moral expectations of the respondents. Therefore, the higher are the moral standards, the more honest and trustworthy are the borrowers. Members of society with high moral standards are more likely to be accountable for their loans, thus reducing the cost of monitoring for the lending institution. As a result, in countries with high moral standards individual lending tends to be more common. On the contrary, in countries with low moral standards enforcement costs for lenders are high and, consequently, these countries tend to favor group lending.

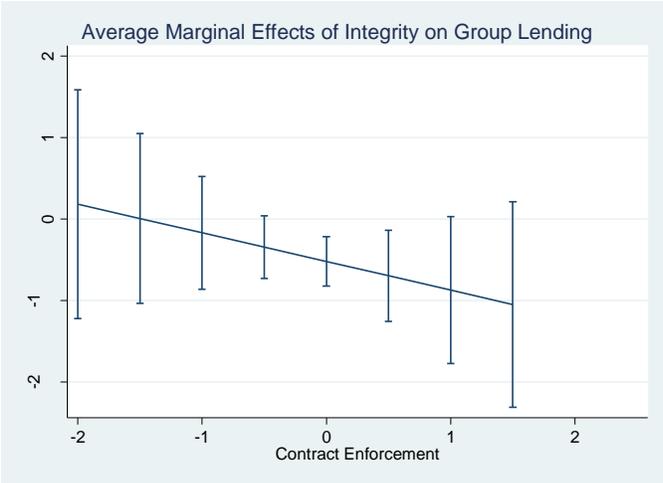
Coefficient for the contract enforcement is insignificant. In general, when formal enforcement is low MFIs would be more willing to employ the group lending. Low formal enforcement means that enforcement cost that are carried by MFIs are high, and MFIs would rely more on social ties among group members to ensure that the clients repay the loan. Once formal enforcement gets higher, MFIs face lower non-repayment risks and would be more inclined to provide individual loans.

When it comes to the pairwise interactions between formal and informal enforcement, e.g. between social capital and contract enforcement, interactions of social capital (both Integrity and Narrow Trust) with Contract Enforcement are insignificant. Negativity of interaction term between Integrity and Narrow Trust implies that these two types of morality work as substitutes in shaping up the moral standards in the community. The sign for the triple interaction term is negative, as expected. When effectiveness of both formal and informal contract enforcement institutions is low, then there is a demand for collective borrowing. In this case, MFIs would only rely on joint responsibility by a group of lenders which depends on the quality of social cohesion among group members. Thus, the effect of Narrow Trust, the supply factor for group borrowing, on group lending is positive and significant only when both formal and informal contract enforcement are failing.

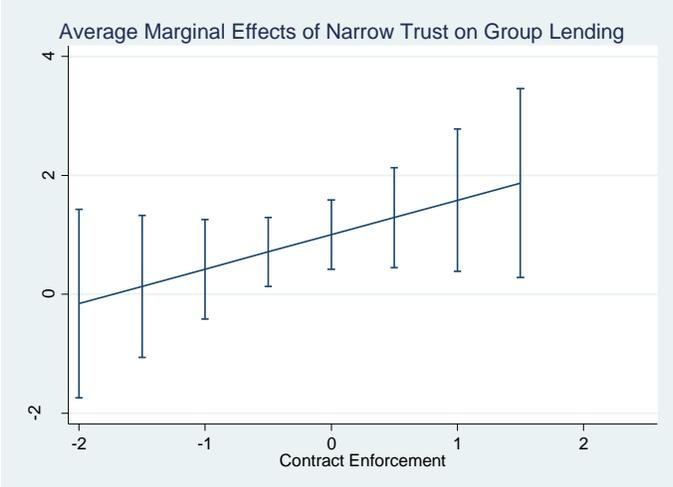
Inclusion of interaction terms into the model makes inference analysis more complicated as the total effect of either social capital or contract enforcement on group lending would be a combination of direct and indirect effects. Direct effect is represented by the coefficient of the

variable while indirect effects are represented by the interaction terms. For proper interpretation of results, we calculated the marginal effects of social capital on group lending. First graph presents the marginal effect of Integrity on group lending while the second graph shows the marginal effect of Narrow Trust on group borrowing. For low scores of formal contract enforcement, the marginal effect of Integrity social capital on group lending is positive. Thus, in absence of strong formal enforcement in communities, high moral standards among people forms social collateral and increases the chance of group lending to be employed. However, when contract enforcement is in place, the marginal effect of Integrity social capital on group lending turns to be negative. In this case, with strong formal enforcement in place, in communities with high Integrity social capital citizens are trustworthy and responsible for their loans thus reducing the monitoring costs for lending institution. Accordingly, higher Integrity social capital results in lower demand for group lending.

Graph 1. Marginal Effect of Integrity on Group Lending.



Graph 2. Marginal Effect of Narrow Trust on Group Lending.



Turning to the marginal effect of Narrow Trust on group lending, in general it is positive implying that the stronger are the ties among group members, the higher the probability of group lending. However, the existence of willful defaulters also indicates that formal enforcement is not always effective. Specifically, in the absence of contract enforcement strong ties among group members might result in willful, or strategic defaults (Nandhi 2012; Haldar and Stiglitz 2016; Gine et al. 2013). Therefore, in case of weak formal contract enforcement higher social ties among group members result in lower demand for group lending.

The signs of control variables are as expected though not all of them are significant. For instance, coefficients for the financial development and GINI coefficient are found to be insignificant. Financial Development reflects the ability of borrowers to access the loans and measures the ease with which any entrepreneur can obtain finance. Lower financial development would force poor individuals to become creditworthy by forming groups to obtain loans (Armendariz and Morduch 2010). GINI coefficient reflects the income inequality within a country. Higher income inequality indicates the lack of collateral for bigger proportion of population in the country. Thus, higher GINI coefficient, corresponding to higher income inequality and lack of collateral, would be resulting in higher demand for group lending.

Negative and significant GDP coefficient suggests that group lending is more common in countries with lower economic growth. Legal origin is found to be important in explaining the contract enforcement score.

## **Conclusions**

Group lending has been seen as the fundamental innovation that allows microfinance institutions (MFIs) to service clients without collateral. Thus, group lending is claimed to be superior to individual lending as it helps MFIs to deal with asymmetric information and moral hazard problems embedded in credit markets. However, despite popularity of group lending, some MFIs prefer to go with individual lending. This research has been done in an attempt to find explanation for the choice of lending methodology by MFIs in different countries. We argue that there are two important factors that are central in explaining the existence of group lending: the effectiveness of contract enforcement and the strength of social connections among group members. Enforcement costs play an important role in determining the demand for group lending while monitoring costs are central in explaining the supply of group lending. First type of costs is paid by lenders to ensure borrowers' compliance. These costs are carried by MFIs to ensure that the clients repay the loan, thus, in case of high enforcement costs MFIs demand for group lending is higher. As enforcement cost depends

on the countries' law enforcement, in countries with low enforcement order MFIs are more likely to employ group lending. On a contrary, in countries with high enforcement order, MFIs would prefer individual lending.

Monitoring costs are borne by borrowers to allow groups to effectively monitor and punish the defaulters. The lower monitoring costs within a group, the greater is the advantage of group lending. Monitoring costs depend on social capital, which is the value of social norms of mutual trust to individuals and society, reciprocity, and social networks. There are two dimensions of social capital: bonding and bridging. Bonding social capital is defined as ties among people within groups of people while bridging social capital describes the ties among groups. With respect to group vs. individual lending, bonding social capital facilitates group cohesion and thus lowers the costs of group monitoring while bridging social capital reduces opportunistic behavior by individuals, lowering legal enforcement costs. As a result, in countries with high social ties and trust among people monitoring costs would be lower increasing supply of group lending. Additionally, in countries with high bridging social capital, moral standards play role of social collateral and serve as an informal enforcement tool.

Our findings imply that group lending is more likely to be employed in countries with a relatively low monitoring and high enforcement cost. This combination is usually found in less developed countries. On a contrary, in more advanced economies, with high monitoring and low enforcement costs, individual lending is more widespread.

When it comes to the interactions between formal and informal enforcement, e.g. between social capital and contract enforcement, our results demonstrate that relationship between formal and informal enforcement depends on the level of contract enforcement in the country as well as the level of bridging and bonding social capital in the society. The effect of bonding social capital on group lending, in general, is positive implying that the stronger are the ties among group members, the higher the probability of group lending. In this case bonding social capital works as a substitute for the formal institutional enforcement. However, in the absence of formal contract enforcement high bonding among group members might cause willful, or strategic defaults and thus result in lower demand for group lending.

The interaction of formal contract enforcement and bridging social capital is different in its nature. In countries with low formal enforcement, MFIs rely more on informal enforcement to ensure repayment of their loans, high moral standards among people form social collateral and increase the

chance of group lending to be employed. Thus, low contract enforcement should be coupled with high bridging social capital to keep group lending relatively more attractive.

However, in countries with strong formal enforcement in place, MFIs rely more on formal rather than informal enforcement to ensure the repayment of their loans. Since bridging social capital represents trustworthiness and reliability of citizens, the higher the general trust to people in communities the more responsible citizens for their loans. Consequently, higher bridging social capital reduces the enforcement costs for lending institution making group lending less probable.

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## Appendix.

Table 4. Definitions of variables

VARIABLES	DEFINITION
GROUP LENDING	Proportion of MFIs in the country that employ group lending
CONTRACT ENFORCEMENT	World Governance indicators are used as a proxy for the strength of contract enforcement in a country
INTEGRITY	Social capital includes all items related to attitude toward civic duty and responsibility
NARROW TRUST	Social capital includes all items that reflect aspects of trust within a group (might include a family, neighbors, friends, etc.)
GENERAL TRUST	Social capital includes items assessing trust for people outside of own group
FINANCIAL DEVELOPMENT	Includes measures of depth, access, efficiency, and stability of financial systems

GINI COEFFICIENT	Measures income inequality in the country, and thus reflects a lack of collateral among the poor
PER CAPITA GDP	Accounts for differences in the degree of development across countries

*Table 4 provides definitions of all dependent and independent variables.*

Table 5. Descriptive Statistics

VARIABLE	DESCRIPTIVE STATISTICS			
	Mean	Std.Dev.	Min	Max
GROUP LENDING	.566	.314	0	1
INTEGRITY	-0.101	0.493	-1.725	0.523
GENERAL TRUST	-0.168	0.31	-1.006	0.414
NARROW TRUST	-0.03	0.38	-1.69	0.692
CONTRACT ENFORCEMENT	0	1	-2.478	2.933
FINANCIAL DEVELOPMENT	.357	.157	.061	.641
GINI	43.653	10.297	26.7	63.2
LN(GDP)	8.151	.905	5.693	9.366

*Table 5 provides descriptive statistics of variables used in the model*

Table 6. List of Countries

Albania	Egypt	Macedonia	Russia
Argentina	El Salvador	Malaysia	Rwanda
Armenia	Ethiopia	Mali	Serbia
Azerbaijan	Georgia	Mexico	South Africa
Bangladesh	Ghana	Moldova	Tanzania
Bosnia and Herzegovina	Guatemala	Montenegro	Tunisia
Brazil	Haiti	Morocco	Turkey
Bulgaria	India	Nigeria	Uganda

Burkina Faso	Indonesia	Pakistan	Ukraine
Chile	Iraq	Palestine	Uruguay
China	Jordan	Peru	Uzbekistan
Colombia	Kazakhstan	Philippines	Venezuela
Dominican Republic	Kyrgyzstan	Poland	Vietnam
Ecuador	Lebanon	Romania	Zambia

*Table 6 provides the list of countries in the sample*

# The Impact of International Financial Integration on Economic Growth in CIS Countries

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**Abstract.** The objective of this study is to investigate the impact of international financial integration on economic growth. International financial integration is simply defined as cross border flows of capital, mostly from capital surplus nations to capital deficient countries (although not necessarily limited to the surplus –deficit hypothesis). In other words, one of the major argument in favour of financial integration is that it provides for capital supply to augment for capital deficit in order to achieve development aspirations of capital deficit nations. On the surplus- deficit hypothesis for financial integration, one of the major limitation to achieving growth target is insufficient financial resources, where the actual domestic investment falls short of the required investment needed to realize targeted growth rate. Some nations have surplus capital and hence are searching for viable investment opportunities abroad to invest. Others lack sufficient domestic capital to spur economic growth and therefore would have rely on foreign capital to augment for the shortfall in order to achieve their growth target. This is where international financial integration comes in handy. In this study, data of CIS countries is analysed and the findings suggest that

**Keywords:** financial integration, economic growth

## 1 Introduction

The term “integration” may simply mean close linkage and/or the removal of impediments to unification. Although, Integration in economic can be viewed from two perspective, which are “economic integration” and “financial integration”, this research work will focus on financial integration. Financial Integration may be defined as a phenomenon where financial markets of neighbouring economies, region or globe are closely connected and/or the removal of barriers to free flow of capital and exchange (Ibrahim et al; 2016, Chen and Qaung, 2014, Baele et al; 2004). This

can be achieved through technological transfer, information sharing, cross border financial flows, participation of foreign investors in the domestic financial market (Summers, 2000).

There are three dimensions to integration (Mussa, 2000) which are human migration, trade in goods and services, and international movement of capital. These factors exert independent influence on the process and pace of financial integration at some time, while at other time interact with each to deepen the pace of financial integration.

In the last few years, the world has witnessed increased evidences financial integration, owing to the increase in the number of bilateral, multilateral, and regional agreements (Geldi, 2012; Vo, 2005; Rogoff, Wei, and Klose, 2003). Statistics show that there is substantial increase in the flow of financial resources. For instance, Global FDI inflow has increase significantly, from 10.172 billion in 1970 to about 1756.7 billion dollars in 2015. Again, the ratio of global portfolio and equity inflow to GDP has increase from 9.12% and 3.93% in 1999 to 13.18% and 5.195% in 2015 respectively (WDI, 2017; WFDD, 2017). Most countries have embarked on reforms both in terms of trade, labour and capital mobility, aimed at promoting financial integration.

There are two major reasons why countries involve in Financial Integration. The first is economic motive, which is the incentive to pool financial resources/capital from surplus spending units across countries to fill the gap between actual and needed financial capital in order to boost investment and productivity. The second reason for Financial Integration is political motive (Friedrich, Schnabel, and Zettelmeyer, 2013). Financial integration brings countries closer and foster stronger political alliances between them.

The rate at which the pace of financial integration is growing in recent times may be attributed to three factors (Mussa, 2000). The first is the improvement in the area of information and telecommunication technologies have made it possible for countries and financial markets around the world to share vital economic information within the shortest possible time frame (Summers, 2000). The second factor promoting integration is the changing investors drive for more profitable/viable opportunities and changing risk profile of investors. This has led investors to search for opportunities which abound in other countries. The third factor is changing public policy and perception (Biekpe and Motelle, 2013). Generally, there is change in public policy and perception, away from seclusion/isolation and protectionism to economic and political integration and liberalization ( Lane and Milesi-Ferreti, 2003, Biekpe and Motelle, 2013).

There are several arguments in support of financial integration. The first is that it is said to promote growth and development ( Bekaert et al; 2005; Masten et al; 2008; Obstfeld, 2009).

Financial integration allows for cross border lender and borrowing, from the surplus spending countries to deficit spending countries for investment purposes.

Another argument for international financial integration is that it promotes financial sector stability and development (Babecky et al; 2010; Chakraborty et al; 2016). Through international financial integration, the financial sector adopts best global practices in terms of corporate governance, standard accounting practices, financial sector supervision and regulations (Guiso et al; 2004; Schmukler, 2004).

In spite of the suppose gains of financial integration, it may be a source of growth volatility and financial sector instability (Bailliu, 2002; Gourinchas and Jeanne, 2013; Demirgüç-Kunt and detragiache, 1998). While it is argued that international financial integration has growth promoting capacity by attracting capital from other countries, it may as well retard growth by being a conduit for capital outflow, especially from poor developing nations (Aghion et al; 2004; Aoki et al; 2006).

Another argument for financial integration is that it propagates financial and economic crisis to other countries, thereby generating negative shock spill over effect (Jun and Maderistsch, 2014).

## 2 Background of the study

**Table 1.** Foreign Direct Investment and GDP Growth for CIS countries in 1995 and 2018

	FDI		GDPG	
	1995	2018	1995	2018
Kazakhstan	4,73	0,12	-8,20	4,10
Kyrgyz Republic	5,79	0,58	-5,42	3,50
Russian Federation	0,52	0,53	-4,14	2,25
Moldova	1,48	2,03	-5,88	3,40
Armenia	1,72	2,04	6,90	5,20
Azerbaijan	10,81	2,99	-11,80	1,41
Belarus	0,11	2,47	-10,40	3,05
Uzbekistan	-0,18	1,24	-0,90	5,12

Tajikistan	0,81	2,94	-12,42	7,30
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### 3 Literature review

The debate on the impact of financial integration on growth is contentious and varies from one country/region to another (Saafi, Mohammed, and Ben Doudou, 2016). In the light of the impact of financial integration on economic growth, scholars remained almost evenly divided. On one hand, some scholars are of the view that financial integration promotes growth (Gehring, 2013; Nicolo and Juvenal, 2014). These scholars argued that financial integration ensure that financial resources necessary growth would be readily available to augment for capital deficit and would flow from capital surplus nations to capital deficit countries in search of viable investment opportunities and hence promote economic growth. Again, Hooy and Lim (2013) state that financial integration improves market information efficiency while Fecht, Gruner, and Hartmann (2012) report that financial integration leads to specialization in the banking sector.

On the other hand, there are scholars who argued that financial integration may be a source of financial sector instability and consequently retard growth (Motelte and Biekpe, 2015) or at best insignificant to growth (Economidou and Kool; 2009; Ahmed and Mmolainyane, 2014; Edison et al; 2002). From their submissions, it may be construed that sudden inflows and outflows of financial capital may in their selves promote shocks in the financial sector and consequently affect growth negatively. Again, another reason as to the negative impact of financial integration on growth, especially for developing countries may be explained by the nature of foreign investment in the domestic economies. Some of these inflows are short term to take advantage of short term profit, while growth requires long term and sustained investment. Therefore, the sudden outflows of these capital may result to economic and financial instability.

Further on the negative impact of financial integration on growth is that it has contagious effect and hence spread and magnify the shocks from one country/region to another ( Paramati, Roca, and Gupta, 2016; Kenourgios, Samitas, and Paltalidis, 2011; Milcheva and Zhu, 2015). This is evidence by the global financial crisis of 2008, the Asian financial crisis of 1997/8, the Euro credit crisis of 2012 to mention but a few. These crises start from one country/region, and later spread to other countries/region, causing devastating economic consequences and often affect global economic

performance. Fecht, Gruner, and Hartmann (2012) find that financial integration has strong contagious effect and leads to banks' failures.

To counter the argument for the negative effect of financial integration on growth, some scholars suggest that the effect of financial integration on growth is contingent upon certain parameters. Ibrahim et al (2016) argued that the impact of financial integration on growth is conditional on economic development indices and does not affect countries with very high and low development indices. Again, Kumar (2015) reports that financial integration affects growth through improvement in financial sector development, while Nicolo and Juvenal (2014) and Chen and Quang (2014) contend that the impact of financial integration on may be amplified through improvement in institutional/legal factors, financial development, good governance, and moderate public spending. Further, Devereux and Sutherland (2011) argued that the impact and gains of financial integration may be dependent on the structure of the financial sector while Lee and Shin (2012) find that financial integration has indirect effect on growth, through technological transfer and diffusion associated with FDI inflows. Freidrich, Schnabel, and Zettelmeyer (2013) argued that the gains of financial integration is hence for countries with greater political integration.

Another area of interest in integration growth relation is that of the determinant of financial integration. Therefore, it becomes necessary to examine the factors promoting financial sector integration so as to score further economic gains owing to financial integration by improving these factors. Several factors have been identified to leads to financial integration. Alotaibi and Mishra (2016) report that trade openness and financial sector development are positive determinants of financial integration while crisis retards integration. Perego and Vermeulem (2016) find that economic growth and current account balance are important drivers of market integration. Also, Chambet and Gibson (2008), Frijns, Tourami-Rad, and Indriawan (2012), Garali and Othmani (2015) argued that networking among markets, economic institutions, trade openness, political stability, quality institutions, economic growth, and membership into economic or regional bloc are important determinants of financial markets integration.

Another factor affecting the degree of financial integration is financial sector and institutional reforms (Boubakri, Couharde, and Raymond, 2016; Arouri and Foulquier, 2012). Also, another likely explanation for the varying degree of financial integration may be attributed to regional/geographical proximity, membership in trade/political bloc, and cultural similarity (Neaime, 2016; Chou, Chen, and Mai, 2011; Paramati, Roca, and Gupta, 2016; Rughoo and You, 2016; Aziakpono, Kleimeirer and Sander, 2014; Yu, Fung, and Tam, 2010). Other factors include

time ( Abui, Ben Aiissa, and Nguyen, 2011), economic growth/volatility (Chou, Chen, and Mai, 2011; Lai, Mc Nelis, and Yan, 2013).

## **4 Methodology**

### **4.1 Data**

Annual data from 1995-2018 for 9 CIS (Commonwealth of Independent States) countries (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan) is used in this study. Data on economic growth, rate inflation, investment, trade ratio, government expenditure, and population growth rate are obtained from World Development Indicator database (2017). Data on international financial integration is obtained from Global Financial Development Database (2017). International financial integration is measured by the stock of capital inflow (obtained from the ratios of FDI and portfolio inflows to GDP). Economic growth is proxy by the growth rate of real GDP. Investment is represented by the ratio of Gross Fixed Capital Formation to GDP. Inflation is denoted by the annual percentage of GDP deflator. Government expenditure is proxy by the ratio of government final consumption expenditure to GDP while population is denoted by the annual population growth rate. Trade openness is measured by trade ratio obtained by the sum of ratio of export and import to GDP.

### **4.2 Model specification**

Following Ibrahim et al (2017), we start by presenting the functional form of our model as below;

$$G = f(FI, control\ variables);$$

where  $G$  denotes economic growth,  $FI$  represent financial integration,  $control\ variables$  are vector of control variables in the model. In the quantile functional form however, we have

$$G_q|FI, control\ variables;$$

where  $G$ ,  $FI$ , and *control variables* are as defined above. The subscript  $q$  denote specific quantile level.

Transforming the above equation into panel quantile econometric representation, we have

$$G_{qit}|FI, control\ variables = \alpha_{qit} + \beta FI_{qit} + \theta control\ variables_{qit} + \varepsilon_{qit};$$

where  $\beta$ , and  $\theta$  are coefficients or parameter estimates of financial integration and other control variables our model.  $\alpha$  is the intercept of the model and  $\varepsilon$  is the error term. The subscript  $q$  denotes specific quantile while the subscript  $it$  imply panel. The control variables include investment, inflation, trade, government expenditure, population, and institutional factors. Therefore, inserting these variables into the model we have;

$$G_{qit}|FI, control\ variables = \beta_{0qit} + \beta_1 FI_{qit} + \beta_2 INV_{qit} + \beta_3 inf_{qit} + \beta_4 trade_{qit} + \beta_5 gov_{qit} + \varepsilon_{qit};$$

While the above equation may be able to inform us of the benefit calculus of the impact of financial integration at different stages of growth, the model however fails to capture and address the possibility of endogeneity of regressors in the model, thereby casting doubt as to the reliability of the findings. For instance, literatures have shown that economic growth promotes financial integration (Bekaert et al; 2005 ). Also, accelerator theory of investment has equally revealed that growth leads to investment (Jorgenson, 1963). Hence by assuming that these variables are strictly exogenous is erroneous and may affect our conclusion. To address this problem, we transform our model into an *Instrumental Variable Quantile Regression model (IV)* where the lag levels of these variables are used as instruments, and thus correcting for the problem of endogeneity of regressors as shown below;

$$\begin{aligned} G_{qit}|FI, control\ variables \\ = \beta_{0qit} + \beta_1 FI_{qit-1} + \beta_2 inv_{qit-1} + \beta_3 inf_{qit-1} + \beta_4 trade_{qit-1} \\ + \beta_5 gov_{qit-1} + \varepsilon_{qit}; \end{aligned}$$

## 5 Result and Discussion

**Table 2.** Descriptive Statistics



**Table 3.** Results of pooled mean group and mean group estimations of the impact of international financial integration on economic growth

VARIABLES	(1) PMG	(3) MG	(5) OLS
Financial Integration(-1)	-0.643*** (0.103)	-1.127*** (0.104)	
Financial Integration	0.246*** (0.0616)	-0.145 (0.218)	0.135** (0.0637)
Inflation	-0.137*** (0.0518)	-0.863 (0.557)	-0.0294 (0.0458)
Government expenditure	0.0948 (0.561)	-3.098 (2.285)	-0.0913 (0.275)
Investment	-0.720** (0.281)	-0.835 (0.896)	-0.0929 (0.199)
Population Growth	0.0870 (0.283)	1.085 (1.781)	0.0855 (0.139)
Constant	2.382*** (0.415)	23.30* (14.00)	2.213 (1.395)
Number of Observations	156	156	183

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Note: All the variables are in natural logarithmic form

## 6 Conclusion and summary

This paper examined the long-run relationship between financial integration and economic growth in CIS countries. Traditional drivers of economic growth such as inflation, government expenditure, investment, and population growth were employed together with our main variable of interest to examine the impact of the financial integration on economic growth. The output of the pooled mean group estimation technique revealed that financial integration has positively associated with economic growth. The results in line with previous studies who advocate a significant positive link between financial integration and economic growth. Furthermore, all the control variables meet the expected sign at conventional significance levels. This study suggests that to take higher advantage of financial integration to translate into economic growth in our sample countries, have to emphasize on development of the financial sector.

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## **Does Foreign Capital Flows Matter for Financial Inclusion.**

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### **Abstract**

This paper uses dynamic panel data method to investigate the nonlinear effect of foreign inflows on financial inclusion in high remittance-receiving developing countries for the period of 2011-2017. The paper found that initially foreign capital contribute negatively to financial inclusion which is measured by an opening bank account and then positively at a later stage. In the early periods, the use of remittances seemed to be unproductive. However, with the passage of time increasing remittances associated with better institutional quality, proxied by trust and bureaucracy, were witnessed to lead to more productive utilization. In contrary to the existing literature stating that remittances foster financial inclusion, our evidence show that the effect of remittances on opening bank account is conditional on the level of inflow of remittances and people perception about institutions. The results suggest the impact of remittances on financial inclusion is in the form of U-shape. Policy implications of findings are evaluated.

**Keywords:** Remittance; Financial inclusion; Dynamic panel data.

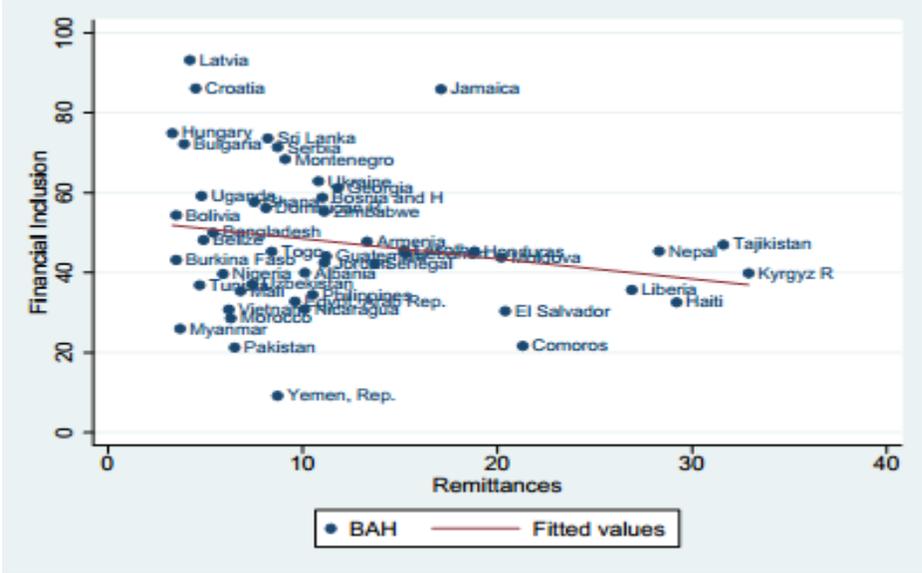
**JEL classifications:** G15; G21; C23

### **1. Introduction**

Money sent home from abroad has always been a matter of great interest among academics and policymakers. According to a World Bank report in 2018, global remittances have increased by 7% between 2015 and 2016. For the same period, remittance inflows to low- and middle-income countries grew by 8.5% while to high-income countries grew only by 2%. Remittances contribute to

economic growth mainly via consumption channel. . In fact, data shows that about 70% of remittances received go toward consumption and other basic needs (De & Ratha, 2012). McKenzie and Rapoport (2011) reports that remittances not only improve the welfare of recipients, but also benefit those with whom the recipients conduct transactions..

This study explores the link between remittances and financial inclusion. The remittance inflows are believed to increase the ability of recipient households to gain access to financial services, thereby encouraging further growth and expansion of financial inclusion. However, the existing empirical studies provide mixed results concerning the impact of remittances on financial inclusion. That is, while Anzoategui, Demircuc-Kunt, and Martinez Peria (2014) and Ajefu and Ogebe (2019) found positive effects, Chami, Hakura, and Montiel (2012) found the opposite. We complement and extend this research by introducing the nonlinear impact of remittances and the interaction of institutional quality and remittances on financial inclusion. It is important to emphasize that financial inclusion is another equally important issue requiring as much global attention as remittances. The number of adults using bank accounts had increased from approximately 3.8 million (69% of adults globally) in 2014 to more than 515 million in 2018 (World Bank, 2018).



income countries households express more distrust in financial institutions. So, instead of keeping remittances in bank accounts they prefer to use them for personal or family expenditures. On the contrary, in high-income countries of the sample, low remittances are associated with high financial inclusion. This might suggest that means households in these countries trust in financial system and prefer to use it for any transactions than to pay in cash. Hence, the current study proposes the idea that a low expansion of financial inclusion may be stemming from weak institutional quality. That is, weak institutions are less effective in managing procedures and paperwork and earning clients' trust during remittance transactions. Therefore, we believe that better institutions and strong contract enforcement plays an important role in terms of access and use of different services of financial institutions and examine the interaction of remittances and institutional quality on financial inclusion.

This paper will contribute to the existing literature in two aspects. First, to the best of our knowledge, the existing literature didn't consider the nonlinear effects of workers' remittance on financial inclusion. Our paper finds that the marginal impact of remittances on financial inclusion is estimated to be not constant. That is, initially when remittances are received in a small amount, there is not much necessity to open bank accounts. Instead, people would prefer to use them for daily consumption immediately (Chami, Fullenkamp, & Jahjah, 2005). However, further increase in workers' remittances should surely influence on people's (workers, households) decision on demand for financial services. For keeping a large amount of money in house is less safe than saving them in bank accounts.. Second, existing studies have not examined the effect of the interaction between institutional quality and remittances on financial inclusion. Our paper fills an important gap in this regard using dynamic panel data estimation methods. . To this end, a panel-GMM method was employed is estimating the major results of our findings and reveal that remittances interacted with institutional quality significantly contribute to financial inclusion.

The rest of the paper is organized as follows: Section 2 provides a brief literature review on the remittances and financial inclusion. Section 3 introduces the empirical methodology used in paper analysis. In conclusion section, we summarize the main findings of the paper and suggest further extensions for future work.

### 3. Methodology

#### ***3.1 Data***

This study uses data from mainly the *World Development Indicators (WDI)* of the World Bank and the International Monetary Fund (IMF). Data was collected for 87 high remittance-recipient countries and for the period from 2011 to 2017. The list of selected countries is provided in Table A1 in Appendix.

Our dependent variable is financial inclusion (*FI*), measured by bank account holders per 1000 people a (Ajefu & Ogebe, 2019; Anzoategui et al., 2014). The average number of bank account holders per 1000 people is 682.5, but the overall (between) standard deviation of 565.4 (565.6) indicates that there is a significant heterogeneity across countries in our sample. Most of the links between the macroeconomic variables in this area are based mainly on financial development (Beck & Demirguc-Kunt, 2009; Cull & Efron, 2008), which encompasses financial inclusion. As Ajefu and Ogebe (2019) notices that financial inclusion is positively correlated with financial development, the discussion here is centred on both. Therefore, based on the existing literature, we include migrant workers' remittances, institutional quality, human capital, interest rate and income of the remittances recipient countries as explanatory variables.

Primary regressor - workers' remittances (*R*) - refer to the ratio of personal remittances inflow to the total population. The average ratio of it is \$151.3 US, but the overall (218.6) and between (217.07) standard deviations are even higher. Studies on the impact of remittances on financial inclusion find ambiguous effects. On the one hand, the remittances tend to boost financial development by creating a demand to open bank accounts and saving instruments (Anzoategui et al., 2014), and the recipients' exploration of bank services (Giuliano and Ruiz-Arranz, 2009; Orozco et al., 2005; Aggarwal et al., 2011; Gibson et al., 2006). (Agarwal and Horowitz (2002); Aggarwal, Demirguc-Kunt, & Peria, 2011)'s finding is consistent with that of (Mundaca, 2009) in that the nexus between financial development and remittance is positive and significant in developing countries. On the other hand, Brown, Carmignani, and Fayad (2013) and Brown, Connell, and Jimenez-Soto (2014) revealed that remittances have negative impact on the use of bank accounts, which implies that the remittance inflows might not result into a more inclusive financial system. Furthermore, Calderón, Fajnzylber, and López (2007) mentions that remittances could reduce demand for credit and even impose dampening effect on the credit markets.. In sum, the mixed results of the aforementioned papers regarding the impact of remittance on financial inclusion motivates us to test if there is a nonlinear relationship between the two.

Second explanatory variable - Institutional quality (*INQ*) - is the measure of institutional development in terms of governance indicators, particularly the *rule of law* and *government effectiveness*, as created by summation two variable (Kaufmann, Kraay, & Mastruzzi, 2008). According to Cull and Efron (2008) and other authors alike, high *INQ* has been found to foster financial development in developing countries. Thus, *INQ* is hypothesized to affect financial inclusion positively since the latter is positively correlated with financial development.

We begin our estimation analysis with descriptive statistics in Table 1. All the series showed considerable variations both across and within the countries that were included in the sample. This further justified the need to use a *heterogeneous panel data estimation technique*, which permits endogeneity issues. In addition, Table 2 presents a simple correlation analysis of the series that was included in the sample. Overall, the correlation exercise revealed that the correlation estimates were within a reasonable range.

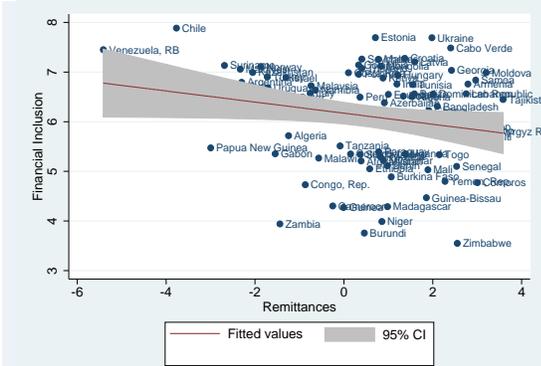
**Table 1. Summary of descriptive statistics**

<b>Variable</b>	<b>Unit of Measurement</b>	<b>Mean</b>	<b>Overall Std. Dev</b>	<b>Between Std. Dev</b>	<b>Within Std. Dev</b>	<b>Minimum</b>	<b>Maximum</b>
<b>FI</b>	Bank Account Holders Per 1000 Adults	682.50	565.40	550.60	134.50	8.60	3379.81
<b>R</b>	Remittance per capita	151.30	218.60	217.07	29.89	0.33	1495.10
<b>INQ</b>	Scale -5 to 5	-0.60	1.40	1.40	0.19	-3.70	4.00
<b>GDPPC</b>	GDP per capita	7812.01	13438.00	13412.00	4583.30	212.50	91218.00
<b>HC</b>	Years of education by adult household members	7.45	3.01	3.01	0.19	1.40	13.00
<b>IDR</b>	In %	41.90	33.35	32.40	7.80	9.50	243.04

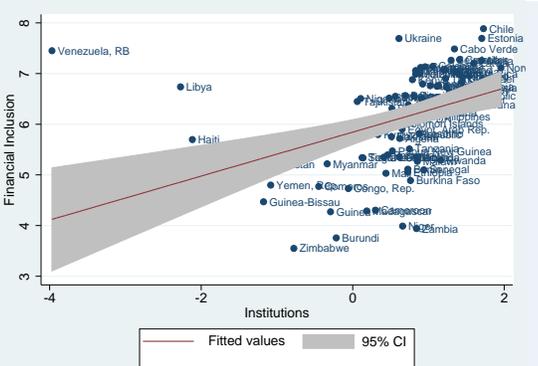
**Table 2. Correlation between series**

Variables	FI	R	INQ	GDPPC	HC	IBD
<b>FI</b>	1					
<b>R</b>	-0.19	1				
<b>INQ</b>	0.57	0.26	1			
<b>GDPPC</b>	0.36	0.47	0.32	1		
<b>HC</b>	0.35	0.08	0.62	0.28	1	
<b>IDR</b>	0.65	0.45	0.58	0.3	0.46	1

To further obtain a good sense of the relationship among the series in the dataset, the average of these data for each country included in our sample was taken to present a cursory graphical relationship between financial inclusion and workers’ remittances considered in our model specification.



**Figure 2a.** Financial Inclusion (Bank account holders per 1000) and Workers’ Remittances (Remittances )



**Figure 2b.** Financial Inclusion (Bank account holders per 1000) and Institutional Quality (Scale -5 to 5)

*3.2 Empirical Methodology*

Since our panel data consists of  $N > 25$  countries and  $T < 25$  time periods, we employ dynamic system GMM method (Raj & Baltagi, 2012). Another reason for using it is its’ ability to control for

endogeneity issue and to remove country specific effects from the regressions which are the main problems of other panel data techniques. In this paper we empirically examine the link between financial inclusion and remittances by estimating the benchmark equation (1) below and modifying it in subsequent equations. So:

$$\log(FI_{it}) = \gamma \log(FI_{it-1}) + \beta_1 \log(R_{it}) + X_{it}'\boldsymbol{\beta} + u_{it} \quad (1)$$

$$u_{it} = c_i + \varepsilon_{it}$$

Here the disturbance term consists of one-way error component which is assumed to capture cross country heterogeneity in this model. All the variables are logarithmic form.  $FI_{it-1}$  is the lagged dependent variable of financial inclusion.  $R_{it}$  denotes workers' remittance inflows to country  $i$  in period  $t$ .  $X_{it}$  is the vector of the other control variables, namely, the human capital ( $HC$ ), interest deposit rates ( $IDR$ ), and GDP per capita ( $INC$ ).

Before applying dynamic system GMM method, this study verifies the nonlinear relationship between real remittances and financial inclusion using the *U-Shaped test* suggested by Lind and Mehlum (2010). It also conducts two diagnostics tests, such as *AR (2) Test* and *Hansen Test* to check the consistency and efficiency of the long run (estimated) parameters of interest. The results of GMM are valid if these two tests p-value are insignificant. The results of the U-shaped test in Table 3 indicate that the estimated coefficients were significantly negative for real remittances and positive for its' square term.

**Table 3. U-Shaped Test**

Variables	
Real Remittances per capita	-0.00717*** (0.000943)
Real Remittances per capita (Square)	0.00551*** (0.000379)
Appropriate U test	10.28 0.001
Extreme point	4.18
95% confidence interval, Fieller method	[-1.1, 7.3]

Note: Standard errors in parentheses \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1.

Source: Authors' compilation from software

The lagged dependent variable is statistically significant in all 5 models in Table-4, which implies that the dynamic system GMM is an appropriate estimator and the empirical results can be relied upon statistical inference. The insignificance of (AR2) Test and Hansen test shows that all our models are robust; the Hansen test did not reject the over-identification restriction at 5% significance level. As expected, the null hypothesis of the second order serial correlation (AR2) is not rejected. Generally, the estimated models in Table 3 are nearly well specified.

The estimated regression coefficients of model (1) are given in Column 1 of Table 4. Except for GDP per capita, all other variables are estimated to be statistically significant. The coefficient of remittance, our primary concern, implies when remittance inflows increase by 1%, the financial inclusion falls by 0.0072%, *ceteris paribus*.

We modify benchmark model (1) by considering institutional quality and its interaction with remittances as:

$$\log(FI_{it}) = \gamma \log(FI_{it-1}) + \beta_1 \log(R_{it}) + \beta_2 \log(INQ_{it}) + \beta_3(\log(R_{it}) * \log(INQ_{it})) + X'_{it}\beta + u_{it} \quad (2)$$

We borrow the idea about the role of institutional quality from (Demetriades & Hook Law, 2006), where they conclude that financial development with high institutional quality is more effective in middle-income economies. This view leads us to estimate the joint impact of remittances and institutional quality on financial inclusion and to test whether an increase in remittances with higher institutional quality will lead to an increase in financial inclusion (Ruiz, Shukralla, & Vargas-Silva, 2009). The estimated regression coefficients of model (2) are given in Column 2 (without interaction term) and Column 3 (with interaction term). Without interaction term, the coefficients of human capital and deposit interest rate are statistically insignificant. On the contrary, adding the interaction term makes the coefficients of those variables highly significant. The marginal impact of remittance on financial inclusion is given by:

$$\frac{\partial \log(FI_{it})}{\partial \log(R_{it})} = \beta_1 + \beta_3 \log(INQ_{it}) \quad (3)$$

The partial derivative in equation (3) implies that the elasticity of financial inclusion with respect to remittance depends on institutional quality. The estimates ( $\hat{\beta}_1 < 0$  and  $\hat{\beta}_3 > 0$ ) in column (3) of Table 4 are highly statistically significant and consistent with Ruiz et al. (2009). Positive (negative)

coefficient of the interaction term indicate that the marginal impact of remittances on financial inclusion is enhanced in recipient countries with strong (weak) institutional quality. In other words, positive (negative) coefficient of interaction term suggests that remittances and institutional quality are complements (substitutes) in shaping financial inclusion in remittance recipient developing countries in our sample. Then the sign of the partial derivative in equation (3) depends on the magnitude of institutional quality. More precisely,

$$\frac{\partial \log(FI_{it})}{\partial \log(R_{it})} \begin{cases} \geq 0, & \text{if } INQ \geq INQ^* \\ < 0, & \text{if } INQ < INQ^* \end{cases}$$

where the threshold level of institutional quality is given by  $INQ^* = e^{\frac{-\hat{\beta}_1}{\hat{\beta}_3}}$ .

As the estimated coefficients of institutional quality are positive in all models and statistically significant (except in Column 4) in all models, this suggests that level of economic condition and socio-political stability in the migrant country of origin, have positive effect on financial inclusion. So, the role of remittances in promoting long-run financial development increases as the quality institutions improves in remittance-recipient countries (Land and Azman-Saini, 2012; Ramirez, 2013; Ruiz et al. 2009; Hamma, 2018).

Considering the potential nonlinear relationship between remittances and financial inclusion, we further modified our model by adding the square of the remittances,  $(\log(R))^2$ , in columns (4) and (5) of Table-4, respectively as:

$$\log(FI_{it}) = \gamma \log(FI_{it-1}) + \beta_1 \log(R_{it}) + \beta_2 \log(INQ_{it}) + \beta_4 (\log(R_{it}))^2 + X'_{it}\boldsymbol{\beta} + u_{it} \quad (4)$$

$$\log(FI_{it}) = \gamma \log(FI_{it-1}) + \beta_1 \log(R_{it}) + \beta_2 \log(INQ_{it}) + \beta_3 (\log(R_{it}) * \log(INQ_{it})) + \beta_4 (\log(R_{it}))^2 + X'_{it}\boldsymbol{\beta} + u_{it} \quad (5)$$

Then the partial derivatives from both equations (4) and (5) show that the marginal impact of remittances on financial inclusion is not constant. That is, from (4) and (5), respectively:

$$\frac{\partial \log(FI_{it})}{\partial \log(R_{it})} = \beta_1 + 2\beta_4 \log(R_{it}) \quad (6)$$

$$\frac{\partial \log(FI_{it})}{\partial \log(R_{it})} = \beta_1 + \beta_3 \log(INQ_{it}) + 2\beta_4 \log(R_{it}) \quad (7)$$

The signs of the estimated regression coefficients in columns (4) and (5) are:

$$\hat{\beta}_1 < 0, \quad \hat{\beta}_3 > 0 \text{ and } \hat{\beta}_4 > 0 \quad (8)$$

They are also highly statistically significant. This tells us that the relationship between remittances and financial inclusion is in U-shape form. Intuitively, this implies for small amount of remittance flows there is not huge demand for bank accounts. So, the financial inclusion is predicted to decrease,  $\hat{\beta}_1 = -0.0419$  and  $\hat{\beta}_1 = -0.0384$ , in columns (4) and (5), respectively. However, a further increase in remittance flows tends to create demand for bank accounts,  $\hat{\beta}_4 = 0.00551$  and  $\hat{\beta}_4 = 0.00473$ , in columns (4) and (5), respectively. That is, this coefficient in both equations is significantly different from zero even at a 1% significance level. So, the remittance flows in huge amounts to recipient countries is risky to keep them in pockets, which, in turn, increases demand for financial inclusion. Thus, allowing for nonconstant returns to remittance flows has improved our model both statistically and in terms of meeting our expectations about how financial inclusion will respond to changes in remittances.

Furthermore, the estimated results of equation (5) implies that the elasticity of financial inclusion with respect to remittance flows depends on both the level of remittances and the level of institutional quality,  $\hat{\beta}_3 = 5.94e^{-0.5}$ . This would seem more reasonable to assume that with better institutional quality, the marginal impact of remittance flows on financial inclusion becomes higher. That is, as institutional quality improves, more of each extra dollar remittance is expected to create demand for bank accounts.

It can be observed from Table 4 that remittances carried the expected negative signed in all models. The evidence of negative impact of remittances found in this study is in line with the results of (Calderon et al. (2008); Brown et al. (2013); Ambrosius & Cuecuecha, (2013); Chami & Fullenkamp, 2012; Giuliano & Ruiz-Arranz, 2009) who reported that remittance inflows might not contribute to a more inclusive financial system. The coefficients of remittances are negative and statistically significant all in all 5 models when we tested the remittances in linear form. It can be observed from Column 4 to 5 when we tested the remittances in nonlinear form, the remittances squares carried the positive signs and remittances carried the negative signed. This implied that the relationship between remittances and financial inclusion is U-shape, which means that remittance inflows reduces financial inclusion in the initial phase; however, the remittance inflows improves financial inclusion at a latter phase. Conversely, our results against Mundaca's (2009), Ramirez's (2013) and Boffy-Ramirez (2017) findings that remittances have significant positive effect reinforce the inclusive effect remittances in the recipient countries.

Finally, the signs of the estimated coefficients of other control variables in the model such as deposit interest rates, GDP per capita and human capital are consistent, though they are not all statistically significant. That is, the higher GDP per capita is positively associated with financial inclusion. The positive sign of human capital coefficient implies that educated people can comprehend the various financial products and tend to get more access to financial inclusion (Calero, Bedi, & Sparrow, 2009; Cole, Sampson, & Zia, 2011; Ellis & Lemma, 2010; Kempson, Perotti, & Scott, 2013; Pena, Hoyo, & Tuesta, 2014). The sign of the interest rates coefficient indicates that an increase in the interest rates for deposits may encourage the opening of bank accounts and improve the financial inclusion in remittance-recipient countries.

In order to test if the remittance impact on financial inclusion is the same across different types of countries (low, middle and high), we modified the above equations by adding dummy variable terms (See Table 5). Here, we take low-income countries as a benchmark category. Comparing the regression coefficients in Table 4 and Table 5, we can see that in terms of statistical significance, they didn't change dramatically. As for the dummy coefficients, we can see that the amounts of financial inclusion in middle-income countries and high-income countries are predicted to be higher by approximately 3% and 10-11%, respectively, than those of in low-income countries.

**Table 4. Results of GMM estimations of the impact of remittances on financial inclusion**

Variables	Dependant Variable (Bank Account Holders per 1000 adults)				
	(1)	(2)	(3)	(4)	(5)
Financial inclusion(-1)	5.304*** (0.0422)	5.581*** (0.0309)	5.476*** (0.0376)	5.559*** (0.0313)	5.469*** (0.0362)
Remittances	-0.00717*** (0.000943)	0.00389*** (0.000941)	-0.00572*** (0.000787)	-0.0419*** (0.00147)	-0.0384*** (0.0019)
Remittances square				0.00551** *	0.00473*** (0.000304)
Institutional quality		0.00454* (0.00229)	0.0134*** (0.0033)	0.0028 (0.00233)	0.0114*** (0.00306)
Remittance*INQ			6.20e-05*** (0.00000976)		5.94e-05*** (0.00000976)
Income	0.000265 (0.00538)	0.0239*** (0.00481)	0.0126*** (0.00443)	0.0257*** (0.00574)	0.0190*** (0.00556)
Human capital	0.120*** (0.0165)	0.0071 (0.0098)	0.0526*** (0.0107)	-0.0025 (0.00877)	0.0352*** (0.0106)
Deposit interest rate	0.000583** *	0.000038 (0.0000659)	0.000370*** (0.0000908)	0.0000764 (0.000103)	0.000261*** (0.0000733)

Constant	-3.646*** (0.0576)	-4.114*** (0.0426)	-3.935*** (0.0514)	-4.024*** (0.0347)	-3.894*** (0.0466)
AR(2) Test	0.16	0.23	0.21	0.089	0.17
Hansen Test	0.152	0.057	0.11	0.086	0.16

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Marginal Effect

Minimum			-0.0057*	-2.241*	-1.97*
Mean			-0.0056*	7.858*	9.26*
Maximum			-0.0055*	14.558*	16.76*

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All variables in log form.

Source: Authors' compilation from software

**Table 5. Results of GMM estimations of the impact of remittances on financial inclusion with income dummy**

VARIABLES	Dependent Variable (Bank Account Holders per 1000 adults)				
	(1)	(2)	(3)	(4)	(5)
Financial inclusion(-1)	5.420*** (0.0610)	5.426*** (0.0594)	5.354*** (0.0571)	5.398*** (0.0610)	5.314*** (0.0556)
Remittances	-0.00385** (0.00150)	-0.00479** (0.00197)	-0.0284*** (0.00368)	-0.00522*** (0.00189)	-0.0314*** (0.00420)
Remittances square			0.00316*** (0.000665)		0.00363*** (0.000717)
Institutional quality		0.0137*** (0.00442)	0.0164*** (0.00475)	0.0138** (0.00660)	0.0224*** (0.00674)

Remittance*INQ				3.75e-05***	5.11e-05***
				(1.23e-05)	(1.49e-05)
HC	0.0585***	0.0597***	0.0674***	0.0673***	0.0766***
	(0.0192)	(0.0196)	(0.0175)	(0.0192)	(0.0182)
IDR	0.000217	0.000227	0.000236	0.000372***	0.000371**
	(0.000152)	(0.000145)	(0.000183)	(0.000131)	(0.000144)
Middle	0.0324*	0.0266	0.0327*	0.0287*	0.0330*
	(0.0171)	(0.0171)	(0.0181)	(0.0171)	(0.0174)
High	0.120***	0.106***	0.114***	0.0948***	0.101***
	(0.0282)	(0.0273)	(0.0297)	(0.0296)	(0.0306)
Constant	-3.784***	-3.802***	-3.661***	-3.766***	-3.609***
	(0.0899)	(0.0863)	(0.0888)	(0.0890)	(0.0859)
Observations	600	600	600	600	600
Number of Country	87	87	87	87	87
AR(2) Test	0.13	0.07	0.08	0.12	0.13
Hansen Test	0.28	0.071	0.06	0.06	0.4

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All variables in log form.

Source: Authors' compilation from software

## 5. Concluding remarks

Overall, our findings from GMM method are consistent with previous studies (ie. Ambrosius and Cuecuecha, 2013; Ambrosius et al., 2014; and Inoue and Hamori, 2016). The plausible explanation might be that remittances allow the recipients to save on cash, which leads to higher demand for deposit accounts. This also paves a way for them to get access to other potential products like payment or even credit (Ambrosius and Cuecuecha, 2016). These demands, in its turns, could be accommodated via an increase in the provision of financial services. Thus, remittances could

enhance their recipients' accessibility to financial services. However, while this additional source of income could lead to the usage of saving accounts (Demirguc-Kunt et al., 2011), it also substitutes for credits in countries with larger credit constraints (Giuliano and Ruiz-Arranz, 2009), which eventually results into a fall in the demand for credits. Besides, according to Ambrosius and Cuecuecha (2016), the effect of remittances on borrowing is driven by informal finance rather than by traditional bank loans, explaining that an increase in remittances is unlikely to encourage the usage of formal financial services. Although remittances could induce negative impacts on the actual usage of financial products, these effects are weaker than the positive impacts they impose on the access side of financial inclusion. Thus, taking these effects all together, the beneficial impacts of remittances on financial inclusion are still witnessed.

In this study, the long run impact of remittances on financial inclusion is examined while accounting for the role of improved institutional quality in remittances receiving countries. This study attempts to achieve its' objective by using a panel dataset for 87 developing countries over the period of 2011-2017, employing GMM estimation technique. The results of our study showed that remittances alone are unable to generate greater financial inclusion. However, financial inclusion tends to increase with better institutional quality. Thus, high trust to financial institution and government in the recipient countries encourages further opening of bank accounts in financial intuitions. To repeat, our study also suggests that there exists a nonlinear relationship between remittances and financial inclusion.

Based on concluding remarks, the main recommendation to policy-makers is to intensify the remittances mobilization to use them as a source of financial funds in domestic markets. Moreover, because of positive impact of remittances on financial inclusion in developing nations, it is suggested to adopt various policies to promote the financial sector to reach a high stabilizing impact of remittances (Ahamada and Coulibaly, 2011).

For future extensions, one could consider employing other control variables such as inflation rate and urbanization growth in explaining the financial inclusion behaviour.

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## Appendix A

Table A1 List of countries included in our sample

Afghanistan	Cote d'Ivoire	Kyrgyz	Papua New Guinea	Uganda
Algeria	Croatia	Lao	Paraguay	Ukraine
Argentina	Dominican Republic	Latvia	Peru	Uruguay
Armenia	Ecuador	Lebanon	Philippines	Venezuela,
Azerbaijan	Egypt,	Lesotho	Poland	Yemen,
Bangladesh	Estonia	Libya	Qatar	Zambia
Belize	Ethiopia	Madagascar	Rwanda	Zimbabwe
Benin	Gabon	Malawi	Samoa	
Bolivia	Georgia	Malaysia	Saudi Arabia	
Botswana	Ghana	Maldives	Senegal	
Brazil	Guinea	Mali	Seychelles	
Burkina Faso	Guinea-Bissau	Malta	Sierra Leone	
Burundi	Haiti	Moldova	Solomon Island	
Cabo	Hungary	Mongolia	Suriname	
Cameroon	India	Myanmar	Tajikistan	
Chile	Israel	Namibia	Tanzania	
Colombia	Italy	Niger	Thailand	
Comoros	Kazakhstan	Nigeria	Togo	
Congo, Rep	Kenya	Norway	Tunisia	
Costa Rica	Kuwait	Pakistan	Turkey	

## **Overview of Factors Predicting New Product Performance: Effects of New Product Creativity and Market Knowledge**

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### **1. Introduction and objective**

For many industries today new product development remains one of the most important issues to be faced to achieve sustainable operation of a firm. In a world of ever heightened competition and rapid development of technology leading to the substantially shortened product life cycles, new product design and development has become crucial for the companies' survival and competitive advantage. This study aims to present an overview of the existing studies on the relationship between the knowledge of the market and the performance of a new product eventually leading to a firm's success in the market. The research of the contingent impact of a firm's market orientation on new product development by introducing the mediating effect of a new product's creativity, expressed in the product's novelty and meaningfulness will also be investigated. The study will attempt to explore two mechanisms – the first between the scope of the market knowledge of the firm and the new product's competitive advantage and the second between the market knowledge and the new product's commercial success.

### **2. Literature Review**

There are up to date numerous studies investigating the new product development process and linking its success to market knowledge in particular (Atuahene-Gima and Wei, 2011; Claudy, Peterson and Pagell, 2016; Jin, Shu and Zhou, 2019) and others. Furthermore, studies have been performed on relationship between market knowledge, creativity and efficient new product development (Amabile and Pratt, 2016; Atuahene-Gima and Wei, 2011). The current study presents an overview of models developed by Dabrowski (Dabrowski, 2019) and Begum Ata, Zehir and Zehir (Begum Ata, Zehir and Zehir, 2018), both of which contribute to the existing literature on the related

themes by linking the market knowledge to the new product competitive advantage and commercial success through the mediating effect of product creativity.

### **3. Research Methodology**

The data for this research was collected from a variety of sources including a search of secondary data from historical studies of the concept of new product development, academic and business journals, global and local databases and syndicated sources such as EBSCO Host, Proquest, Emerald and others. The studies by Dabrowski (Dabrowski, 2019) and Begum Ata, Zehir and Zehir (Begum Ata, Zehir and Zehir, 2018) were chosen for closer attention due to the novelty and scope of the presented research.

### **4. Data Analysis**

The process of a new product development is usually associated with various risks and uncertainties. One of the most prominent uncertainties faced by an enterprise while developing a new product is the one of a market where the product is to be introduced. Market uncertainty is usually described as instability of a specific market resulting in changing customer needs and preferences. In order to effectively deal with such market uncertainty, firms tend to gain as much knowledge about the related market as possible – a notion also known as market orientation. If a firm is market-oriented, it aims to develop an organizational culture that prioritizes customers and strives to create a superior value to them through marketing activities. Market understanding leading to market knowledge is an important factor in achieving success of a firm's new product.

The current work focuses on presenting an overview on the studies exploring the relationship between the market knowledge and new product development performance. The study addresses the models of analyzing the factors of market orientation and firm performance developed by Dabrowski (Dabrowski, 2019) and Begum Ata, Zehir and Zehir (Begum Ata, Zehir and Zehir, 2018).

Once again, market knowledge is commonly cited as a firm's valuable asset: thorough knowledge of the targeted market is stated to result in a new product that would provide superior value to the customers resulting in creation of a competitive advantage (Dabrowski, 2019; Begum Ata, Zehir and Zehir, 2018). The authors developed several hypotheses that they tested in their research, summarized further. The first hypothesis is formulated as:

H1: The scope of market knowledge has a positive effect on a new product's competitive advantage.

The related link of market knowledge to the performance of a new product, namely, its commercial success is also investigated resulting in the second tested hypothesis:

H2: The scope of market knowledge has a positive effect on a new product’s commercial success.

Further, the mediating effect of a new product’s creativity is introduced to study impact of a firm’s market orientation on new product development. Product’s creativity is characterized by two dimensions – product meaningfulness and novelty (Amabile and Pratt, 2016; Nakata et al., 2018). Both concepts of new product competitive advantage and new product commercial success are investigated through the prism of the product creativity dimensions, resulting in hypotheses:

H3: The scope of market knowledge has a positive effect on a new product’s competitive advantage through the product’s meaningfulness and novelty.

H4: The scope of market knowledge has a positive effect on a new product’s commercial success through the product’s meaningfulness and novelty.

The summary and relationship between the investigated hypotheses are depicted in Figure 1.

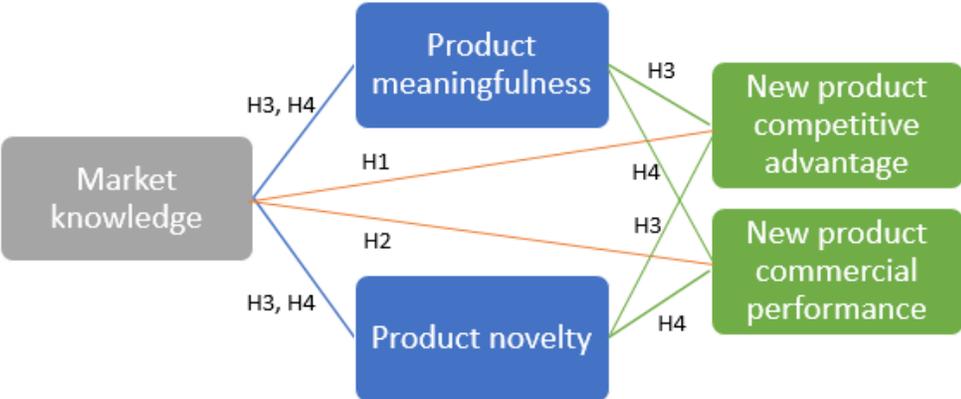


Figure 1. Relationship between studies hypotheses 1-4. Model is adapted from Dabrowski, 2019 and Begum Ata, Zehir and Zehir, 2018

The hypotheses from the studied models were tested by the authors on designated samples of local medium- and large-scale enterprises through distributed questionnaires and conducted interviews. The results were processed using confirmatory factor analysis and structural equation modeling.

**5. Conclusion and recommendations**

The results of the chosen studies indicated that the market knowledge has an interim variable role between new product development capabilities and firm performance while the new product development capability has a positive effect on firm performance. Furthermore, the results of the research models proved that market knowledge is transferred to both new product competitive advantage and new product commercial performance through the factors imbedded in new product creativity. The results of such studies have a prospectus to generate both theoretical and managerial implications. In regards to the theoretical contribution, the mechanisms could be further developed from the results of the research linking factors such as market knowledge, new product competitive advantage and new product commercial success. As for the managerial implications, the results of the proposed research will potentially be of use to the managers engaged in new product development process. Managers will likely benefit from the knowledge of the amount of attention they should devote to each factor investigated in the research and the influence each factor possesses over the new product's performance. Managers aiming to achieve strong competitive advantage and/or commercial success for a new product would benefit from knowing the strength of the link of the competitive advantage to product's creativity, both in terms of product's novelty and meaningfulness leading to creating effective recommendations for a manager to develop marketing support for a new product. Thus, the authors plan to continue their studies on the factors influencing the performance of a new product and potentially develop a similar model for the local context of Kazakhstani market.

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