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Table of Contents (Volume 11, Issue 1)

Eldar Madumarov and Gerald Pech: Regional integration with imperfect commitment: the case of the Eurasian Economic Union6

Azhar Baisakalova and Francis Amagoh: Multi-method research design in the study of corporate social responsibility in Kazakhstan.....17

Perspectives

Chan Young Bang: Implications of Kazakhstan's economic modernization for North Korea's economic development and the Korean Peninsula.....29

Regional Integration with Imperfect Commitment: The Case of the Eurasian Economic Union

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***Abstract:** Why did the Eurasian Economic Union form in stages with an increasing number of participants at each stage rather than in one round? If all aspects of union membership can be contracted and enforced, theory predicts immediate formation of the union. Yet if contract enforcement is not credible, deferring accession of some countries may be the preferred outcome—an incentive device known as “conditionality” in the context of EU enlargement. In this paper we show that Kyrgyzstan’s accession adds one layer of complexity: While conditionality can ensure that Kyrgyzstan undertakes required rule adaptations, there is also the need to make accession itself desirable. Because the facilitating country—in this case Russia—cannot promise to fully compensate after accession has occurred, the incentive to accede must come in the form of investments or aid where the benefits accrue only after accession.*

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Keywords: Regional Integration, Customs Union, Conditionality, Imperfect Commitment

1. Introduction

Why did the Eurasian Economic Union (EAEU) form in stages with an increasing number of participants at each stage rather than in one round? Of the countries that had joined by 2019—Russia, Belarus, Kazakhstan, Kyrgyzstan, and Armenia—the former four were already at the table when the Eurasian Economic Community was founded in 1996. But only Russia, Belarus, and Kazakhstan signed the Dushanbe Agreement on the Single Customs Area in 2010 while Kyrgyzstan, after extensive negotiations, only acceded in 2015 to what had become the European Economic Union (for an overview, see Tarr, 2016).

While efficiency gains from forming the union are generally assumed to be limited and unequally distributed, Tarr (2016) estimates that taking into account deep integration of product markets and labor market integration, there is an economic case for integration. Furthermore, the observation that in the end the union formed, underlines that ultimately members preferred union over non-union, possibly taking into account political benefits. Hence, forming the union must have been efficient. Yet if it is efficient to form the full union and if we lived in a perfect world where bargaining is frictionless, there are no limits to transfers between countries, and agents can write fully contingent contracts that are credibly enforced, theory predicts that the efficient outcome should be realized immediately.

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Deviations from those conditions that could explain the observation of sequential formation of economic union are externalities that can be strategically exploited when options to write contracts are limited (Aghion, Atrás, & Helpman, 2007),² bargaining frictions, uncertain political succession, and myopia resulting in time-inconsistent behavior (Alimbekov, Madumarov, & Pech, 2017). Apart from myopia, changing preferences of the political leadership over time, and expected changes to these preferences, can also explain delay (on the political background of negotiations, see Buckley, 2011). An alternative way to explain inefficiencies in bargaining is asymmetric information. Schneider and Cederman (1994) introduce an asymmetric information argument to explain a pattern of slowdown and acceleration of integration in the history of the European Community.

In this paper, we focus on imperfect commitment as a reason why some countries may be invited to accede to the union later than others: There is a limit to which contracts among sovereign governments can be externally enforced, so any promise that a country makes is credible only if it is in the interest of the country to keep that promise. Promises of rule adjustments made before accession may not be credible once accession has occurred. Similarly, promises of transfers to the accession country to compensate for any disadvantage from accession may not be credible once accession has occurred but are sunk if they are made before accession. In this paper we show that making accession conditional on rule adjustment is an effective way of overcoming the first hurdle but that only transfers in the form of investments that unfold their benefit over time are likely to avoid the second hurdle.

We relate our finding to the concept of “conditionality” which is a well-established incentive device in the context of eastern enlargement of the European Union. The EU makes accession dependent on working down a task list—typically involving items such as reform of the judicial system, realizing the rule of law, ensuring political competition, and liberalizing the economy. While a similar conditionality mechanism can explain Kyrgyzstan’s delayed accession to the EAEU, the compensatory investment dimension appears to be unique to the case of EAEU enlargement.

Section 2 of this paper relates our research to the literature. Section 3 lays out the argument why rule adoption and commitment are relevant problems in the case of Kyrgyzstan. Section 4 provides a simple formal model of regional integration which reveals assumptions behind our argument. Section 5 concludes.

2. Literature Review

Adding members successively is a feature that the Eurasian Economic Union shares with other organizations of regional integration such as the European Union. Economic integration tends to create the conditions for further integration, including by creating externalities on countries not joining (see e.g. Mattli, 1999). Baldwin (2012) provides a general dynamic framework in which he discusses sequencing in terms of both deepening integration and spreading integration (see also Baldwin, 1995). Heuristically, “trade liberalization begets trade liberalization” (Baldwin, 2012). The attractiveness of an integrating core of economies forming a customs union for outsiders has been explored in the trade literature (Yi, 1997): Customs unions may form stepping stones towards multilateral trade liberalization if outsiders can freely join, although this may be resisted by insiders. Kemp and Wan (1976) have shown that there exist external tariff vectors and a system of lump sum transfers that can be selected by the customs union members so that the formation and extension of the union do not diminish welfare of either members or non-members. Yi (2000) shows that forming a

² Gomes and Jehiel (2005) point out that with fully contingent contracts, externalities are not realized in equilibrium.

free-trade area is a Pareto improvement. Gnutzmann and Gnutzmann-Mkrtchyan (2019) find that a customs union maximizes their members' welfare compared to a free-trade area or a most-favored-nations regime.

Therefore, the reason for the failure of customs unions to form must lie in deviations from a world with frictionless bargaining in which ultimately all welfare gains are realized. One can add here that our concern is with the failure of immediate formation of such customs unions that will eventually form: Considerations such as state sovereignty might prevent some countries from integrating with others, never mind the economic argument. However, where the economic argument ultimately prevailed, the question is why it did not prevail with immediacy. Aghion, Atràs, and Helpman (2007) show that if customs union formation has external effects on non-members, a *formateur*—or agenda setter—can design a sequence of integration steps over time with the aim of reducing the demand of an accession candidate that is left outside of an initially formed core customs union. Alimbekov, Madumarov, and Pech (2017) have argued that in the absence of bargaining frictions and if the agenda setter is free to choose a more complex bargaining protocol, the full union should immediately form nonetheless, because a credible threat is supposed to change behavior rather than being carried out in equilibrium. Here, it is sufficient to have a bargaining protocol that allows the agenda setter during bargaining to threaten to form a core customs union rather than actually forming one. Alimbekov, Madumarov, and Pech (2017) show that if the agenda setter can amend a proposal during the bargaining—a device known as an open rule protocol (see Baron & Ferejohn, 1989)—the efficient outcome is realized immediately. Gomes and Jehiel (2005) show that if agents are restricted to sign spot contracts, externalities can be sustained in equilibrium, but if they are able to sign contingent contracts they realize Pareto-optimal outcomes. Only if bargaining is particularly time consuming would the agenda setter prefer to form the core customs union immediately and leave the formation of the full union for later, rather than forsaking even the advantages of the core customs union for the time taken up by negotiations.

Moreover, it is possible to have competition between potential agenda setters and, consequently, uncertainty around which of some potential nuclei a customs union will ultimately form. Ploeckl (2015) explains integration into the German Customs Union (*Zollverein*) using the externality argument of Aghion, Atràs, and Helpman (2007). However, the history of the formation of the *Zollverein* also recounts failed attempts of forming alternative areas of regional integration: the Central German Commercial Union and the Customs Union of Bavaria and Wurtemberg, (Alimbekov, Madumarov, & Pech, 2017). For example, for Belarus some form of association with the neighboring European Union would at least have been a theoretical possibility (For details, check Celbis, Wong, & Guznajeva, 2018). In this case, the actual formation of some customs union can remove such uncertainty for potential accession countries.

The problem of incomplete commitment prevails when agents—individual governments or the union—find it possible and beneficial not to fulfill promises of carrying out or rewarding policies that they felt opportune to make at an earlier stage. Essentially, the problem is due to changes in the bargaining power of agents over time. Its implications for contract design and ownership structure of firms has been extensively studied in the contract theory literature (see, e.g. Klein, Crawford, & Alchian, 1978, and Hart & Moore, 1990). The problem they consider is that the party to a contract that has to make a specific investment may find it impossible to recuperate its cost once the cost is sunk and, because of the specificity of the investment, there is no outside market. Therefore, bargaining power has moved to the other party. Investments in intergovernmental relations such as rule adoptions represent investments that are similarly specific to the contract or the organization that makes them necessary. Note that, unlike in the case of integrating firms (see, e.g. Klein, Crawford,

& Alchian, 1978), integration in the case of countries that retain substantive sovereign rights does not resolve this bargaining problem.

We identify an incomplete commitment problem in the integration process where the union otherwise has limited incentives to reward and, consequently, the acceding party is reluctant to make investments to meet the demands of the union; we argue that one way of addressing this problem is to make integration conditional on making these investments. Conditionality is an incentive device which has been strategically employed by the European Union (and by the International Monetary Fund) during its Eastern enlargement process which resulted in the accession of a number of Central and Eastern European countries to the EU. An alternative explanation in terms of the commitment effects of EU conditionality is offered by Bronk (2002) who argues that rule adaptation by accession countries ties their hands in policy terms. The promise of ultimate accession is made dependent on cumulative fulfillment of different “chapters,” and, ultimately on adjustment of local rules to EU rules.

Schimmelpfenning and Sedelmeier (2004) have explored the bargaining foundations of conditionality. They argue that for the incentive mechanism to work, accession must be strongly attractive for Central Eastern European countries. While the EU may be less strongly interested, they also state that “the more the pre-accession process advances, the higher are the costs of withholding the reward.” Having focused on strategic aspects of EU enlargement in a partition function game, Moravcsik and Vachudova (2003) along with Koczy (2010) have made valuable contributions as far as the bargaining foundations of the European integration is concerned.

3. A Simple Formal Model of Accession with No Commitment

The point of departure from the analysis of EU accession is that for Kyrgyzstan the cost-benefit analysis of accession is finely balanced (see International Monetary Fund, 2016) and at least for some parts of the population, accession without compensation was perceived as resulting in a loss (for details, check section 4.1). In the following we present a simple model of economic integration for the case where the formation of an economic union produces overall efficient gains but, because one country is a net loser, accession only occurs if there is a transfer of resources from the winning to the losing country.

Consider two countries, a and b , where a is the agenda setter and b a potential accession country. We may think of a as Russia and of b as Kyrgyzstan, ignoring countries which already have accessed the union. Let $v(a,b)$ be total available annual welfare from forming an economic union of a and b , and $v(a)$ and $v(b)$ as the annual welfare available for a and b when they are separate. $v(\cdot)$ may be derived from a standard model of international trade with differentiated products (for details, see Yi, 1996), taking into account political arguments such as national sovereignty or prestige. And it may include the disutility from any activity that country b has to undertake to realize the full benefits of economic union.

We assume that the total payoff for the members of the union is $v(a,b|e^*)$, where e^* is a discrete effort level that b has to undertake before accession. Quantity, quality, and variety of desired or required institutional amendments in the regulatory framework of an acceding country can stand for the effort level e^* . Given e^* , $v(\cdot)$ satisfies superadditivity, i.e. $v(a,b|e^*) > v(a) + v(b) + e^*$, so that b undertaking the effort and a and b forming the economic union consisting of a and b is efficient. The payoffs of the partner countries in the union, x_a and x_b , are determined by intra-union bargaining after accession and satisfy $x_a + x_b = v(a,b|e^*)$. In line with our previous discussion, we assume that $\Delta_b = x_b - v(b) - e^* < 0$ is b 's (negative) benefit from undertaking the effort and joining the union, so b needs some form of external incentive. For simplicity, we assume that b has no direct benefit from undertaking e^* outside

of the union and that without effort e^* it is inefficient to form the union. (We could think of setting a minimum effort level $e^{min} < e^*$ but at the cost of having to specify how x_a and x_b depend on e .) For a , $\Delta_a = x_a - v(a)$, $\Delta_a + \Delta_b > 0$.

Obviously, in order to incentivize b to join the union, a needs to make an investment I which increases b 's benefit by $I \geq -\Delta_b$. We assume that I is in its entirety a cost to a and a benefit to b .

Case 1a) Assume I is an investment which has value to b independent of accession. In this case, making the investment before b 's accession does not change the relative advantage of staying inside or outside of the union, hence b will decide not to join. So say that a promises to make the investment after accession. After accession has occurred (and b has made her investment), making the investment is not credible.

Case 1b) Assume I is an investment which only has value to b once it has acceded. In this case, a wants to make the investment and b wants to accede and to undertake the effort, if this is a prerequisite for accession, because $\Delta_a > -\Delta_b$. So there is an I that a would be willing to make ex ante.

It is also in a 's interest to offer accession once the effort has been made. By our assumption on the property of $v(\cdot)$, if the effort has not been made, it is not in a 's interest to offer accession.

Result 1: *If a can make an investment $I \geq -\Delta_b$, which unfolds its benefit to b contingent on accession, b wants to undertake the effort and accede.*

An alternative arrangement would be for b to accede without making the effort and to rely on post-accession negotiations with a to make an investment to pay for its effort. If a is willing to make an offer, it would have to be $I' = e^*$ as compensation for b undertaking the effort.

First, we show that the following is true:

Claim: *If forming the union is efficient—and an adjustment cost of e^* is necessary for it to be efficient—then a will always want to pay b for the effort after accession has occurred.*

Proof: a would be willing to invest $I' = e^*$ if what it keeps from the total payoff after the union and after paying e^* is at least as great as her payoff in the absence of the investment, i.e.

$$v(a,b|e^*) - x_b - e^* \geq v(a,b|0) - x_b$$

or equivalently,

$$v(a,b|e^*) \geq v(a,b|0) + e^*.$$

We show that efficiency, i.e. $v(a,b|e^*) \geq e^* + v(a) + v(b)$, implies $v(a,b|e^*) > v(a,b|0) + e^*$:

By the assumption that without e^* the union is inefficient, $v(a,b|0) < v(a) + v(b)$.

So $v(a,b|0) + e^* < v(a) + v(b) + e^* \leq v(a,b|e^*)$ as claimed. ♦

So a always wants to ensure that b undertakes the effort once accession has occurred. However, after accession, it cannot commit to pay more than $I' = e^*$ for this effort. There are two possibilities of how this would affect b 's willingness to accede:

Case 2a) $x_b - v(b) < 0$.

In this case, b would not want to join even if a could be relied on to make the effort, because after accession it ends up with x_b which is less than stand-alone value.

Case 2b) $x_b - v(b) \geq 0$.

In this case, b would be willing to join because—as shown in the claim—it predicts that a will want to invest $I' = e^*$ after accession. No assumption in our analysis precludes this outcome.

Result 2: If accession is not attractive for b even in the absence of effort (i.e., $x_b < v(b)$), b will not want to join the union unless a makes the investment before accession. In the other case, b is willing to join because a is predicted to compensate it for its effort after accession.

To summarize our results: If union membership and rule adaptation leave b worse off than in the status quo ante, i.e. $\Delta_b < 0$, a has to incentivize b to join. The incentive may be provided after accession in the case where b 's payoff in the union is at least as great as in the status quo ante, i.e. $x_b \geq v(b)$. In that case, a has incentives to pay for rule adaptation even after accession, which is enough to make accession attractive for b . If, on the other hand, b 's payoff in the union is smaller than in the status quo ante, $x_b < v(b)$, a must pay b more than just to compensate for rule adjustment but it is willing to do so only before accession. Therefore, b will only accede if a can make an investment before accession which disgorges its benefit after rule adjustment and accession. In this case, the solution combines conditionality and an investment that unfolds its benefits after accession.

As we expound in the following section, it is quite plausible that in the case of Kyrgyzstan joining the Eurasian Customs Union, the condition $x_b < v(b)$ was fulfilled:³ Apart from other incentives, Russia put up funding and support to deal with the direct adjustment costs. For this case, Result 2 suggests that accession will occur only if efforts and investments are made before accession. In light of Result 1, this requires investments that are carefully calibrated to unfold their benefits only if there is ongoing cooperation in the union.

4. Accession Impact and Rule Adaptation in the Case of Kyrgyzstan and the EAEU

4.1 Russian Investments in Kyrgyzstan

The formation of a customs union in its neighborhood left Kyrgyzstan with two unpalatable options, where joining was seen as bad an option as staying out (Pavlov, 2012). Since there were groups expected to incur losses in each of the scenarios, there has been no unity concerning the question of whether to accede to the customs union. Thus, the Russian VTsIOM Center for Social Research found that, in November 2011, two-thirds of Kyrgyz citizens supported some sort of integration within the former Soviet space (*Kyiv Post*, 2011). In contrast, Winner (2013) reports a survey among traders at Bishkek's Dordoi wholesale market in spring 2013 which revealed that about 70% opposed accession to the customs union and 30% favored it. While the dependence on remittances made joining the region of free labor mobility unavoidable, some sections of the economy, such as the reimport sector and the textile industry, were threatened by accession. These sectors had been main beneficiaries of a relatively low external tariff barrier (Winner, 2013 and Keene, 2013). With some sections of society feeling disadvantaged by accession and with limited scope for redistribution within the country, Kyrgyzstan's accession, rather than being a prize to be secured, probably depended on external incentives. In the time span covering the conclusion

³ Even if only a part of the population loses, external funds may be necessary for making accession acceptable, when there is insufficient scope for redistribution within the accession country.

of the Dushanbe agreement creating the Eurasian Customs Union in 2010, Kyrgyzstan's application for membership in the Union in October 2011, and its signing of the accession treaty in November 2014, which went into force in August 2015, Russia took measures that benefited the Kyrgyz side: In April 2013, Russia wrote off \$500 million owed by Kyrgyzstan, of which \$188.9 million were immediately written off, with the rest to be written off over the subsequent 10 years (*Kommersant*, 2013). In 2014, Russia granted a support package worth \$1.2 billion to modernize Kyrgyzstan's military, and it leases Kant airport for \$4.5 million per year, which is reported to increase to about \$4.8 million per year (*Nezavisimaya Gazeta*, 2019), a major source of income for the Kyrgyz government and the region (Farshori, 2014). In addition, a \$1 billion development fund was approved by Russia to mitigate any negative impact of accession (International Monetary Fund, 2016). Half of the fund's endowments is provided as a grant, and the remaining half is at the disposal of the Kyrgyz authorities as a loan. Furthermore, in March 2019, Russia and Kyrgyzstan signed trade and investment agreements worth \$6.135 billion (*Komsomol'skaya Pravda*, 2019). It is worth noting that all these investments unfold their benefits for Kyrgyzstan over time and depend on ongoing cooperation between Kyrgyzstan and Russia.

4.2 Rule Adaptation

As a World Trade Organization member, Kyrgyzstan faced demanding adjustments to its system of customs duties, 49% of which were incompatible with the customs union (Khitakhunov, Mukhamediyev, & Pomfret, 2017), although at worst these effects were expected to be transitory after Russia's accession to the WTO. During accession negotiations, transition periods for imposing the new customs tariff were agreed for a number of products. Upgrading of veterinary and sanitary standards for product testing and of border facilities became necessary and was ultimately achieved with Russian support. Although there is still an array of customs-related issues, Kyrgyzstan is on track in adjusting its regulatory framework and systems in line with the requirements of the Eurasian Economic Union's regulations.

4.3 Commitment Problem

As argued above, Russian investment was needed—and was also forthcoming—to ensure Kyrgyzstan's accession to the customs union. In addition, there is the need to make sure that Kyrgyzstan undertakes rule adjustments. However, it is difficult to time investment so that it provides the desired incentive effects: If the investment is made and unfolds its benefits before accession, Kyrgyzstan will no longer have an incentive to accede. If the investment is made after accession, it may still incentivize rule adjustment.⁴ But given that accession had already occurred, it would be difficult for Russia to credibly commit to making an investment of the size that would not only encourage rule adjustment but also incentivize accession.

The credibility problem in the case of the EU Eastern Enlargement is different. There, the accession country expects to receive benefits in the form of private investment and EU funds. Both forms of benefit represent strong incentives to accede but are not easily withheld after accession. Therefore, conditionality is designed to provide incentives for rule adaptation before accession (see Schimmelpfennig and Sedelmeier, 2004).

⁴ We ignore here problems that could arise in direct exchange of payment for rule adjustment: If *a* pays *b* upfront, *b* might shirk. If *a* pays *b* after completion, *a* might claim that the effort was not successful—so any final settlement may depend on arbitration.

5. Conclusion

Our analysis suggests that in the presence of commitment problems and with the acceding country not directly benefiting from accession even if it does not incur adjustment costs, accession will occur only if rule adjustment is conditional on accession and if the country trying to facilitate accession makes carefully calibrated investments that compensate for the disadvantage of accession but unfold their benefits only after accession. The case of Kyrgyzstan and its accession to the Eurasian Customs Union—which at the time of accession had already transformed into the Eurasian Economic Union—and the kind of investments made by Russia in the time between Kyrgyzstan’s application and its signing of the accession treaty appear to fit our theoretical predictions quite well.

These results do not contradict earlier results obtained by Alimbekov, Madumarov, and Pech (2017) that bargaining frictions are a good explanation of the sequential formation of the Eurasian Economic Union. If parties to a contract cannot commit, this will incur a cost; and we can argue that this cost contributes to the cost of bargaining. Turned the other way, fulfilling conditionality conditions and making calibrated investments is going to take time. Alimbekov, Madumarov, and Pech (2017) identified the time it takes to negotiate the accession treaty as the decisive determinant of bargaining frictions.

The results contrast starkly with conditionality in the context of EU enlargement. There, the main problem that conditionality seeks to remedy is to prevent the accession country from reneging on a promise of rule adaptation. Our analysis of the case of Kyrgyzstan’s EAEU accession suggests that while Russia is seemingly willing to provide incentives for accession and rule adaptation, the problem is that to incentivize accession it has to “overpromise” compared to what it would be willing to pay after accession.

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6. Summary

English: *Combining the theory of economic union formation and the context of the most recent rounds of the Eurasian Economic Union expansion, the authors of the paper address the question why the Eurasian Economic Union formed in stages with an increasing number of participants at each stage rather than in one round. Assuming that all aspects of union membership can be contracted and enforced, theory predicts immediate formation of the union. Yet if contract enforcement is not credible, deferring accession of some countries may be the preferred outcome—an incentive device known as “conditionality” in the context of EU enlargement. This paper shows that Kyrgyzstan’s accession adds one layer of complexity: While conditionality can ensure that Kyrgyzstan undertakes required rule adaptations, there is also the need to make accession itself desirable. Because the facilitating country—in this case Russia—cannot promise to fully compensate after accession has occurred, the incentive*

to accede must come in the form of investments or aid where the benefits accrue only after accession.

Russian: Почему Евразийский экономический союз формировался поэтапно с увеличением числа участников на каждом этапе, а не сразу за один этап? Если все аспекты членства в союзе могут быть формализованы и реализованы в договоре, теория предсказывает немедленное формирование союза. Тем не менее, если соблюдение договоров не вызывает доверия, отсрочка вступления некоторых стран может быть предпочтительным результатом, что является стимулирующим механизмом, ставший известным как «кондициональность» в контексте расширения ЕС. В этой статье мы показываем, что вступление Кыргызстана добавляет дополнительный уровень сложности: хотя кондициональность может гарантировать, что Кыргызстан предпримет необходимые процедурные изменения, также имеет место необходимость сделать само присоединение желательным. Поскольку страна-фасилитатор - в данном случае Россия - не может обещать полную компенсацию после того, как вступление произошло, стимулы для присоединения должны приобретать форму инвестиций или помощи, когда выгоды материализуются лишь после присоединения.

Kazakh: Еуразиялық экономикалық одақ неліктен бірден бір кезеңде емес, әр кезеңде қатысушылардың саны артып, кезең-кезеңмен құрылды? Егер одаққа мүшеліктің барлық аспектілері келісімшарт түрінде ресімделіп, жүзеге асырылса, теория одақтың тез арада құрылуын болжайды. Алайда, егер шарттардың сақталуы сенімсіз болса, кейбір елдердің қосылуын кідірту артықшылықты нәтиже болуы мүмкін, бұл ЕО кеңейту контекстінде «шарттылық» деп аталатын ынталандыру тетігі болып табылады. Бұл мақалада біз Қырғызстанның қосылуы күрделіліктің қосымша деңгейін қосатынын көрсетеміз: шарттылық Қырғызстанның қажетті процедуралық өзгерістерге кепілдік бере алатынына қарамастан, сонымен қатар кірудің өзі қалаған жағдайда жасалуы қажет. Жеңілдетуші ел - бұл жағдайда Ресей - қосылу болғаннан кейін толық өтемақы бере алмайтындықтан, қосылу ынталандырулары инвестициялар немесе көмек түрінде болуы керек, егер пайда тек қосылғаннан кейін жүзеге асса.

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Multi-method Research Design in the Study of Corporate Social Responsibility in Kazakhstan

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Abstract: *This paper presents the multi-method research approach to the study of corporate social responsibility (CSR) in Kazakhstan. The paper uses various qualitative approaches to identify factors that would promote CSR in Kazakhstan. Using the theoretical frameworks of action research and stakeholder theory, grounded theory and grounded action, and systems thinking, the study employs different purposive sampling techniques. Primary data was collected through questionnaire surveys and analyzed through a coding mechanism. Results identified five determinants of CSR policies in Kazakhstan: legal instruments; economic instruments; partnering instruments; public information; and philanthropic responsibilities. The paper provides insights into how an integrated qualitative research approach can study an issue of significant impact on the economic, cultural, and social life of a post-Soviet state.*

JEL codes: L5, M1, O1

Keywords: *Multi-method research, corporate social responsibility, research methodology, sustainable development, Kazakhstan*

1. Introduction

Scholars have focused on the distinction between mixed method and multi-method research design in recent years. Cameron and Molina-Azorin (2011) argue that the mixed method approach combines quantitative and qualitative data collection and analysis in the same study, while multi-method studies use multiple qualitative or quantitative methods. For example, a purely qualitative study that uses interviews, surveys, ethnography, and content analysis would be considered a multi-method design. This paper investigates the multi-method design in the study of Corporate Social Responsibility (CSR) in Kazakhstan. This post-Soviet country in Central Asia is an emerging economy where the CSR agenda is influenced by historical, cultural, political, and economic developments. Kazakhstan is foremost in attracting foreign direct investment among members of the Commonwealth of Independent States, and thus is an interesting case for exploring CSR-related issues in the post-Soviet context. The need to promote CSR in Kazakhstan has been recognized by the country's political and business leaders, as well as by leaders of non-governmental organizations.

The remainder of this paper is organized as follows. We first discuss the theoretical frameworks (action research and stakeholder theory, grounded research and grounded action, and systems thinking approach) that guided the study. Second, in the methodology section, we present processes in the multi-method design (i.e., developing the research data base, data collection, sampling methods, and questionnaire construction). Third, we analyze data.

Fourth, we discuss findings. Fifth, we discuss the credibility of the study. Finally, we succinctly conclude the paper, with recommendations for research.

2. Theoretical Frameworks

There are relatively few studies of CSR in Kazakhstan. Two are Mahmood and Humphrey (2012) and Smirnova (2012), both of which applied the classic Carroll's pyramid model. According to the World Bank (2003), there is a need to explore local and regional knowledge of CSR in order to effect long-term sustainable development and enable companies to develop appropriate CSR strategies. The present study uses action research and stakeholder theory, grounded theory and grounded action, and systems thinking in a comprehensive analysis.

2.1 Action Research and Stakeholder Theory

Action research demands that participants in a study involve stakeholders who are willing to effect change through the study's outcome (Reason & Bradbury, 2001; Sproull, 2004). In the CSR context, stakeholders include representatives of businesses, the government, trade unions, and of nongovernmental organizations (NGOs). Action research seeks to bring together action and reflection, with theory and practice in the pursuit of practical solutions to pressing issues. It is congruent to the idea that systems behavior involves the aggregate behavior of agents, and that internal schemes are actively constructed through interactions of agents. Burns (2000) states that action research is the application of fact-finding to practical problem-solving. It involves the diagnosis of a problem, identification, and implementation of corrective actions, and monitoring of the effects. Following Reason and Bradbury (2001)'s model of action research, CSR in Kazakhstan was identified as an important issue for the country's sustainable development.

The use of action research was suitable for this CSR study because it has the four basic characteristics identified by Burns (2000):

- Situational: The study diagnoses a problem in the field of CSR and attempts to solve it.
- Collaborative: Key CSR actors and the researchers worked as a team on the study.
- Participatory: Key CSR actors were directly involved in the research.
- Self-evaluative: The changes and their implementation were continuously evaluated at meetings of key stakeholders to improve the CSR strategy.

Action research and stakeholder theory are somewhat intertwined. Stakeholder theory suggests that stakeholders are individuals or groups who have a major "stake" and who can significantly affect it (Freeman, 1984; Sacconi, 2004). Major stakeholders in CSR in Kazakhstan include: the American Chamber of Commerce in Kazakhstan (which aims to raise awareness of CSR issues in the business community); local organizations, such as the Eurasia Foundation; and various international businesses in the country.

The rationale behind stakeholder theory lies in creating value and finding win-win outcomes by seeking and connecting stakeholders' varied interests, while providing opportunities to align business practices with social expectations (Porter, 2008). Since action research aims at arriving at particular decisions, it should include at least one representative from every stakeholder group. Involving stakeholders enhances the feeling of ownership of

solutions. This increases the likelihood that the recommended actions will be put into practice (Vennix, 1996).

2.2 Grounded Theory and Grounded Action

Grounded theory is a qualitative research process that constructs new explanations from emerging data (Glaser & Strauss, 1967). While grounded theory is derived inductively from data (quantitative or qualitative), it is mostly used as a qualitative methodology. According to Strauss and Corbin (1990), in grounded theory one does not begin with a theory in order to prove it, rather one begins with an area of study and allows what is relevant to that area to emerge. In this study, the perceptions and expectations of key stakeholders in different categories of CSR emerged from the data. Grounded theory was used by applying the Glaser (2005) taxonomy of economic, legal, ethical, and philanthropic responsibilities. Categories of CSR responsibilities were defined, while key actors that support and promote CSR in Kazakhstan were identified.

While grounded theory provides the framework from which to extract theory from data, grounded action takes the data and develops actions to support it. Grounded action can be described as inductively derived from a study for the purpose of creating and applying practical solutions in social systems. The purpose is to devise actions that are based upon a grounded understanding and consideration of the roles of all participants (Glaser & Strauss, 1967). Programs and policies work as intended only if they are grounded in the realities that are relevant to, and experienced by, participants in the action context. Grounded action is an innovative approach to understanding and solving complex social and organizational problems by systematically grounding and integrating data, analysis, theory, and action. Based on grounded action, practical steps in how to positively effect change in CSR in Kazakhstan were developed.

2.3 Systems Thinking Approach

General systems theory was formulated by Bertalanffy (1968). A system is considered to have subsystems, and the behavior of each subsystem affects the overall system (typical examples of systems include organizations, societies, and humans). The behavior of the subsystems, and their effects on the system, are interdependent. While the subsystems all affect the system, none has an independent effect on it (Amagoh, 2008). Systems thinkers insist that systems must be analyzed as a whole to understand its emergent properties and the interrelatedness of its parts. Consequently, emergence and interrelatedness are fundamental properties of systems thinking (Forrester, 1994; Senge, 2006). The systems thinking approach considers that organizational performance is best understood in terms of the entire system and its environment (Quade & Miser, 1985). Since organizations consist of patterns of events that are interdependent (e.g., the industry within which they operate, the overall economy, and the legal environment), they must be understood in terms of their interaction with each other. Organizational performance depends on its ability to balance competing factors in its environment (Ackoff & Rovin, 2003).

According to Quade and Miser (1985), the central purpose of systems analysis is to help public and private decision-makers solve problems and resolve policy issues. It does this by improving decision-making processes through generating ideas and solutions. Within the systems framework, CSR is viewed as an attempt to manage a complex system with many interactions among many parts. This complexity can be managed by working with selected subsystems or by working with the system as a whole. Quade and Miser (1985) argue that

systems thinking is especially relevant in the context of CSR as it involves interactions of many stakeholders with different perceptions, expectations, and priorities. CSR is seen as a mechanism through which organizations and businesses align their values and behaviors with the expectations and needs of stakeholders in the organization and the society at large. From a systems perspective, CSR implies that businesses take into account the concerns of all stakeholders alongside economic, social, and environmental issues (Porter, 2008) by addressing the interests of business and society (Ackoff & Rovin, 2003).

3. Research Methodology

The CSR study used secondary and primary data. It started with a review of the literature that includes published government documents and reports by international organizations, while primary data was collected through survey questionnaires. In-depth discussions were held with members of the Eurasian Foundation CSR Club in Kazakhstan. Relevant CSR themes included perceptions and expectations of different stakeholders; driving forces and priorities in CSR activities; major barriers hindering CSR; and the roles of business, state, and civil society in CSR in Kazakhstan. The action problems focused on the development of a national concept for promoting CSR in Kazakhstan. The research database was developed by collecting, coding, and processing publicly available data on business entities and their relationships with the state and civil society organizations in CSR activities.

To ensure representativeness, several purposive sampling methods were used. According to Maxwell (1996), in purposive sampling particular settings, persons, or events are selected to provide adequate information. The following purposive sampling techniques were used: maximum variation sampling (implying a wide range of selected cases); and mixed purposeful sampling (when sampling strategies are mixed to meet the needs of the study). The maximum variation sample is defined as a purposefully selected sample of persons or settings that represent a wide range of experiences related to a phenomenon of interest (Teddlie & Yi, 2007). Thus businesses, the government, trade unions, and NGOs were identified based on desk research and analysis of empirical data. Mixed purposive sampling strategies are used to gain greater insights and to identify common themes for the study.

As part of the action research, several meetings and conferences were conducted and some survey respondents attended them. The meetings were convened by the CSR Working group of the US Chamber of Commerce, the Republic of Kazakhstan Civil Alliance, and experts of the CSR Club of the Eurasian Foundation in Central Asia. The data collection process explored the spectrum of CSR perceptions in the private, public, and third sectors. Of the 237 questionnaires distributed, 187 usable questionnaires were returned (a response rate of 78.9 percent), consisting of 125 business companies, 33 NGOs, 19 trade unions, and 10 state entities. The questionnaires were pre-tested to ensure accuracy and clarity. A sample questionnaire used in the study is in the appendix.

4. Data Analysis

Primary data was analyzed through a coding mechanism, while content analysis was used for secondary data. Coding of primary data helped group the data into emerging categories. Through content analysis of government documents, government policies on CSR and expectations of key actors were assessed. Contents of the documents were analyzed within the policy framework of Fox, Ward, and Howard (2002) which consists of endorsing, partnering, mandating, and facilitating.

“Endorsing” implies providing political support to CSR efforts through publicity and praise of them by endorsing business contributions to society. “Partnering” policies establish a common agenda for CSR through social partnerships (Fox, Ward, & Howard, 2002; Bredgaard, 2004). Governments can play the role of a broker in partnering public agencies with businesses, civil society organizations, and other stakeholder groups in tackling complex social and environmental challenges (Ho, 2013). “Mandating” uses legal authority and legitimacy to permit or prohibit an activity. Governments can regulate the behaviors or practices of businesses by defining minimum standards for business performance embedded in the legal framework; establishing targets for businesses to achieve; and promulgating codes or laws to limit undesirable business conduct (Fox, Ward, & Howard, 2002; Bredgaard, 2004). “Facilitating” implies a supporting role for governments (Moon, Nahee, & Gond, 2010). This suggests that CSR elements are included in related areas, such as industrial policy, trade policy, environmental policy, and labor policy. It includes enabling legislation (such as tax incentives and subsidies) and economic motivation programs (Bredgaard, 2004; Moon, Nahee, & Gond, 2010; Ho, 2013) to encourage companies to engage in CSR for social and environmental improvements.

5. Research Findings

Table 1 presents the findings of the study. Five categories of actions to enhance CSR in Kazakhstan were identified (legal instruments, economic instruments, partnering instruments, public information, and philanthropic responsibilities). Each dimension is briefly described below.

5.1 Legal Responsibilities

Respondents (96.7 percent of the sample) identified legal instruments (such as laws and decrees) as significant measures that improve CSR in Kazakhstan. These are mandating activities by the government that can be embedded in laws and statutes. Some of these legal provisions can be included in legislation, such as the labor code, the environmental code, the tax code, and the laws for joint stock companies. For example, while the rules of the Kazakhstan Stock Exchange require social reporting for listed companies, the law requires major oil companies to contribute significant resources to the social and economic development of the regions where they operate as well as operate in an environmentally-friendly manner. Apart from these mandating roles played by the government, which impose strict penalties on companies for environmental violations, respondents indicated that companies have moral environmental responsibilities towards future generations.

Factors	Agree (out of 187 responses)		Strongly agree (out of 187 responses)		Total positive responses (out of 187 responses)	
	No.	%	No.	%	No.	%
Legal instruments (e.g. laws, decrees)	64	34.2	117	62.5	181	96.7
Economic instruments (e.g. tax abatements, subsidies)	106	56.7	72	38.5	178	95.2
Partnering instruments (e.g. public-private partnerships, collaborations with other companies; collaborations with NGOs)	93	49.7	76	40.6	169	90.3
Public information (e.g. training and conferences, awareness-raising campaigns)	117	62.6	44	23.5	161	86.1
Philanthropic responsibilities	129	68.9	28	15.0	157	83.9

Table 1. Responses on factors affecting citizens' adoption of e-government.

5.2 Economic Instruments

These are facilitating activities used by the government to encourage companies to engage in CSR activities. Results of this study show that 95.2 percent of respondents believe that economic incentives, such as tax abatements and subsidies, are significant measures to increase CSR in Kazakhstan. An example of a facilitating role is the fact that the Tax Code allows taxpayers up to a three percent reduction of taxable income for expenses of charitable services. Such measures and other subsidies will improve CSR in Kazakhstan.

5.3 Partnering Instruments

According to survey results, 90.3 percent of respondents indicate that various forms of partnership arrangements are needed to promote CSR in Kazakhstan. Companies can partner with other firms, the government, NGOs, and with trade unions on CSR activities for the country's long-term sustainable development. The government can play a vital role in this

process by developing partnership initiatives that involve stakeholders to address issues facing the country.

5.4 Public Information

Respondents (86.1 percent) believe public education to be important for CSR in Kazakhstan. This is considered a significant endorsing role by the government which can be accomplished through public information campaigns, training and conferences, and speeches and awards given to socially responsible organizations.

5.5 Philanthropic Responsibilities

According to 83.9 percent of respondents, improving the culture of philanthropy will significantly increase CSR in Kazakhstan. Such a culture of philanthropy and altruism would allow companies to view CSR as an ethical and moral obligation to make long-term sustainable positive impacts in the communities in which they operate.

6. Credibility of the Study

The use of multiple sources of evidence to help measure the same phenomenon enhances validity (Yin, 2003). To ensure validity and reliability, this study used multiple data sources in the data collection. Validity and reliability of the results were enhanced through the triangulation of information drawn from the literature, as well as through primary sources collected from stakeholders in the CSR field. Credibility and validity of the study can also be demonstrated by the fact that portions of the findings were included by the government in its draft of the National Strategy for promoting CSR in Kazakhstan (Baisakalova, 2014). Based on this study's findings, suggestions were also made by members of government and private organizations to include CSR-related courses in curricula of higher educational institutions in Kazakhstan.

7. Conclusion and Recommendations

This paper presents the multi-method research design used in the study of CSR in Kazakhstan. This approach used the theoretical frameworks of action research, stakeholder theory, grounded theory, grounded action, and systems thinking. Content analysis, surveys, interviews, and coding mechanisms were used to analyze the data. To encourage CSR in the private sector, the government should support it through measures that promote transparency, create incentives for responsible business conduct, and encourage corporate accountability (Baisakalova, 2014). CSR can contribute to societal welfare and sustainable development through partnerships between the complementary skills of public, private, and civil society sectors.

A major limitation of the CSR study is that the data were collected predominantly from respondents in the two major cities of the country, Almaty and Nur-Sultan. Thus the findings may not be representative of the views of stakeholders across the country. Future studies should ensure that data are collected from other parts of the country, especially rural

areas. Further studies should also account for potential changes in expectations and preferences among wider categories of participants by targeting a broader set of stakeholders (such as the general population and media houses). To further enhance the validity and reliability of the study, future research should analyze the data based on company size and type of industry. Finally, a comparative analysis should be undertaken of CSR practices in Kazakhstan and those in developed countries, with a view to how to benchmark local CSR issues with western best practices.

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8. Summary

English: *This paper discusses the multi-method research approach used to investigate corporate social responsibility (CSR) in Kazakhstan. The study used qualitative approaches to identify factors that would promote CSR in Kazakhstan. Primary data was collected through questionnaire surveys and analyzed through a coding mechanism. Results of the study identified five determinants of CSR policies in Kazakhstan: legal instruments, economic instruments, partnering instruments, public information, and philanthropic responsibilities. The study provides insights into how an integrated qualitative research approach studies an issue of significant impact on the economic, cultural, and social life of a post-Soviet state.*

Russian: *В данной статье обсуждается метод мультимедиа исследований, используемый для изучения корпоративной социальной ответственности (КСО) в Казахстане. В исследовании использовались различные качественные подходы для выявления факторов, способствующих КСО в Казахстане. Первичные данные были собраны с помощью анкетирования и проанализированы с помощью механизма кодирования. Результаты исследования выявили пять определяющих факторов политики КСО в Казахстане, а именно: правовые инструменты; экономические инструменты; инструменты партнерства; публичная информация; и благотворительные обязанности. Исследование дает представление о том, как интегрированный качественный исследовательский подход может быть использован для изучения вопроса о значительном влиянии на экономическую, культурную и социальную жизнь постсоветского государства.*

Kazakh: *Бұл жұмыста Қазақстандағы корпоративті әлеуметтік жауапкершілікті (КӘЖ) зерттеу үшін қолданылған көп әдісті қарастырады. Зерттеу барысында Қазақстанда КӘЖ дамуына ықпал ететін факторларды анықтау үшін әртүрлі*

сапалық тәсілдер қолданылды. Бастапқы деректер сауалнамалар арқылы жиналды және кодтау механизмі арқылы талданды. Зерттеу нәтижелері Қазақстандағы КӘЖ саясатының бес анықтаушысын анықтады, атап айтқанда: құқықтық құжаттар; экономикалық құралдар; серіктестік құралдар; қоғамдық ақпарат; және меценаттық міндеттер. Зерттеуде посткеңестік кеңістіктегі мемлекеттің экономикалық, мәдени және әлеуметтік өміріне елеулі әсер ету мәселесін зерттеу үшін кешенді сапалық зерттеу әдісін қалай қолдануға болатындығы туралы түсінік берілген.

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10. Appendix

Survey Questionnaire

Please rank which instruments you think are most effective in promoting CSR in Kazakhstan.

	1 = strongly disagree	2 = disagree	3 = neutral	4 = agree	5 = strongly agree
Philanthropic responsibilities					
Legal instruments (e.g., laws, decrees)					
Economic instruments (e.g., tax abatements, subsidies, etc.)					
Public information (e.g. trainings and conferences, awareness-raising campaigns, etc.)					
Partnering instruments (e.g. public-private partnerships, collaborations with other companies; collaborations with NGOs, etc.)					

Perspectives

Implications of Kazakhstan's Economic Modernization for North Korea's Economic Development and the Korean Peninsula

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Abstract: *This article provides a blueprint for North Korea's economic reform, which includes its opening to the global economy, by examining the economic modernization of Kazakhstan, a former member of the Union of Soviet Socialist Republics, and applying these lessons to the unique situation of the Democratic People's Republic of Korea (DPRK). This work covers five implications of the Kazakhstani experience: the will of the leader for economic modernization, the establishment of an expert committee, enactment of friendly foreign policy, privatization and enactment of foreign investment law, and education and development of human resources. The article then outlines the practical steps that the DPRK must take to achieve rapid and sustained economic modernization coupled with permanent peace and prosperity.*

JEL classification: O21

Key words: *Kazakhstan, North Korea, economic modernization, market-oriented reform, Soviet Union, Nursultan Nazarbayev, Kim Jong Un.*

1. Introduction

The Republic of Kazakhstan is one of the five post-Soviet nations in Central Asia. Of these now-independent countries, Kazakhstan has achieved the most remarkable, sustainable economic development through its transition from a socialist system to a market economy, beginning in 1990 under the leadership of the first president, Nursultan Nazarbayev. Income per capita, which had been about \$800 before the reform in 1990, reached \$24,738 in purchasing power parity by 2018 through market reform, becoming part of the developing world (Stark & Ahrens, 2012). In this regard, what lessons can be learned from the experience of Kazakhstan? How can North Korea follow in its example of dynamic economic development through system reform, making the transition from socialism to markets?

2. Lessons from Kazakhstan

2.1 Indomitable Will for Economic Modernization

First, Nazarbayev maintained an unconquerable will for economic modernization. Without the commitment of the nation's leader, reform cannot achieve dynamic and sustainable economic development. The example of China is similar—Deng Xiaoping was dedicated to modernization, with key officials in the Communist Party and the military playing a critical

¹ The author gratefully acknowledges the research support of the DPRK Strategic Research Center at KIMEP.

role. “If we don’t change, we are at a dead end!” Deng said in 1992. “Whoever doesn’t reform will have to step down!”

Deng’s sentiment speaks both to his determination to reform and to the importance of party and military officials’ support of this process (Alff, 2014). Their participation curtailed opposition from these sectors, which unchecked could have caused the process to run aground.

2.2 Establishment of an Expert Committee

Returning to the example of Nazarbayev, one of the most critical measures towards reform was his establishment of a committee of domestic and international economic experts. The Experts Committee planned reform under the direction of Chairman Nazarbayev and Vice-Chairman Chan Young Bang. In a closed economy, the main role of an experts committee is to establish and supervise reforms modernizing the economy and expediting GDP growth at the target rate of 10% annually. Kazakhstan’s committee contributed greatly to modernization (Baigabylova, 2012).

As North Korea lacks experts with a deep knowledge of market economies, reform, centered on privatization of state corporations, will be difficult and painful. Nonetheless, if the DPRK is to minimize the trials and errors in rapid and inexpensive modernization, it must establish an experts committee.

2.3 Enactment of Friendly Foreign Policy

Concurrent with the introduction of reform, Nazarbayev voluntarily destroyed over 1,400 nuclear warheads and intercontinental ballistic missiles that the newly-independent nation had inherited from its communist predecessor. Nazarbayev understood that nuclear weapons did not enhance Kazakhstan’s security. Also, military forces and expenses were greatly reduced (Koh, 2019).

Friendly relations with Western countries were introduced, establishing diplomatic relations with the United States on December 16, 1991 and with the Republic of Korea on January 28, 1992.

Things are different for the DPRK, and this represents a major obstacle to economic development. Since its founding, North Korea has consistently employed hostile foreign policy. As Mikhail Gorbachev famously stated, foreign policy is an extension of domestic policy. In the case of North Korea, this is a realization of *Juche* ideology, which is based upon the creation of a conflict-like atmosphere, hatred of foreign powers, the concept of proletariat dictatorship, and class struggle, plus the uniquely North Korean feature of dynastic succession within socialism.

By claiming a nearly “divine” mandate under *Juche* principles and drawing authority from the legacy of his grandfather and father, Kim Jong Un has managed to sustain his reign over the last eight years. In view of consolidating his reign, he has redirected all state funds—whether income from official economic activities or illegal trade—together with all labor and goods towards two goals: development of the nuclear program, which North Korea declared to be completed in 2017; and realization of showcase projects, mostly in Pyongyang.

These selected projects (usually in the construction industry) serve the purpose of giving economic opportunities to elite members (both civil and military), and showing the population that their sacrifices are not in vain but rather are essential to building a “strong and prosperous country” (*kangsong taeguk*).

As an extension of its domestic policy, the North Korean regime’s belligerency in dealings with the global community can be classified as yet another mechanism for

controlling the population and ensuring its own survival. Built upon a permanent atmosphere of militarization and the socialist struggle against capitalism both inside and out, the regime has employed this hostile policy to coerce the sacrifice of the people to build credible military deterrence, as well as to justify the deprivation of the people through the extraction system.

The essential catalyst for this system is the creation and maintenance of an atmosphere of “permanent war footing.” The leadership must “preserve a mantle of revolution,” a permanent state of war, to justify enormous sacrifices by the population (McEachern, 2009). These sacrifices are imposed on the people to extract resources and are justified by keeping the country constantly militarized, so much so that North Korea has been characterized as a “garrison state” (Kim, 2017).

This feature is evident in North Korea but not unique to it. All Communist systems are hostile to outsiders who do not share their political ideology. This conflict is in itself a crucial component of communism, as it embodies the essential struggle against capitalism. Eduard Shevardnadze (1991, pp. 57-8), the Foreign Minister for the Soviet Union during Gorbachev’s presidency, had the following to say about a totalitarian socialist system:

Renouncing the principle of the supremacy of universal human value and returning to the absolute of class origin means to resurrect the image of the enemy, internal or external, and thus justifies repressions inside and outside the country. Presupposing a totally hostile encirclement means cultivating a siege mentality, preparing for war, and engaging in confrontations and conflict without respites.

As the regime shifts towards reconciliation with the U.S. and South Korea and an emphasis on economic development, hostile foreign policy will be made obsolete. Moreover, were economic reform actually to be introduced in the DPRK, friendly foreign policy (and domestic policy along with it) would be necessitated. Unless hostility, hatred, and animosity subside, Kim Jong Un will lose any chance of attracting investment or other funds from stakeholders, and normal trade relationships can never be built with the outside.

2.4 Privatization and Enactment of Foreign Investment Law

At the same time that the communist regime collapsed in the Soviet Union in 1991, the Communist Party was delegalized, and all of its assets were confiscated and privatized (Katircioglu & Naraliyeva, 2006). The president enacted and enforced the Foreign Investment Promotion Act based on market principles, in order to attract foreign investment, and Kazakhstan signed a joint venture with the world's leading oil companies, such as Chevron, British Oil, Agip, and Shell, to significantly increase oil production (Kurmanov & Aibosynova, 2015). Foreign currency earned from oil exports was used for economic modernization and financial resources.

Ultimately, privatization is the backbone of economic reform. The success of the economic modernization of North Korea depends upon the extent to which it can privatize state-owned corporations, reallocating their buildings and land to the private sector, and gradually expand markets. According to recent reports, production from the unofficial sector already accounts for more than half of the DPRK’s gross national product. Nurturing this sector into a market economy will require laws that allow diverse corporations to be founded and operated, including joint ventures between the state and private entities, joint stock companies, and entrusted management.

Additionally, the enactment of foreign investment law will attract the foreign capital necessary to augment growth through joint ventures and joint management schemes that introduce cutting-edge technology and managerial knowledge. It will also attract foreign currency through exports. Legislation must include benefits and exemption plans for foreign

investment, provisions for fruitage remittance, the right to exchange foreign currency for domestic currency at market rates, land leases, bankruptcy and liquidation, and an arbitration court to resolve disputes among enterprises.

2.5 Education and Development of Human Resources

Upon Kazakhstan's achievement of independence from the Soviet Union in 1991, KIMEP University (then known as the Kazakhstan Institute of Management, Economics, and Prognostics) was established to foster and train young talents who would lead the future market economy of the country. In addition, to facilitate sending students abroad for further studies and training, the Bolashak Scholarship Program was established.

Ultimately, the modernization of a nation's economy is not achieved by natural resources or a corporate organization; it is achieved by people. Kazakhstan demonstrated that competent individuals who have received excellent training and education at Western-style universities not only play an important role in economic reform, they serve as the driving force for economic development. They can manage new private enterprises, establish reasonable economic policies, and execute national tasks efficiently. This will speed up modernization.

3. Measures to Achieve Economic Modernization in the DPRK

Were North Korea to give up its nuclear program to achieve economic modernization and follow the example of Kazakhstan's rapid reform, what measures and conditions must be in place to sustain economic growth as a nuclear-free country?

1. Achieve a sufficient rate of annual economic growth.
2. Pursue market-oriented reform. The government should privatize means of production, enact laws that support private enterprises and protect foreign investment, and free up the labor market.
3. Allow the proprietary (bourgeois) class to join the Communist Party.
4. Adopt friendly foreign policy. Retract so-called mosquito-net policies that were meant "to prevent ideological pollution by capitalism."
5. Reduce military expenses in the two Koreas and restructure industry, shifting from heavy and military industries to export and consumer goods industries.
6. Secure economic development funds to support economic modernization for at least 10 years or until the foundation for modernization is established. I estimate that this would require at least \$30 billion a year on average. International financial institutions such as the International Monetary Fund, the World Bank, and the Asia Development Bank may provide funds.
7. Establish at least four special economic zones to control instability caused by reform. These zones foster markets, but only within their borders.
8. Assign personnel released by the privatization of national corporations and the reduction of military forces to building infrastructure.
9. Identify leading industries that have a comparative advantage in driving economic development. Such industries include logistics, tourism, construction, fisheries, and information technology.
10. Foster well-trained workers for the public and private sectors, by establishing Western-style universities and programs for study abroad.
11. Establish social security systems for the sick, unemployed, and orphaned.

Ultimately, North Korea's positional advantages and constraints make it useful to learn from Kazakhstan's reforms. But the path of the former Soviet nation is not a panacea that the DPRK can imitate. In modernizing North Korea's economy, Kim Jong Un should draw upon the experiences of other countries, but the regime must blaze its own path.

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4. Summary

English: *By reviewing the experience of Kazakhstan, a former member of the Union of Soviet Socialist Republics, throughout its opening and reform and comparing it to the situation of the current North Korean regime, this article provides a blueprint for the Democratic People's Republic of Korea (DPRK) to achieve rapid economic modernization.*

Russian: *Рассматривая опыт Казахстана – бывшей республики Союза Советских Социалистических Республик, на протяжении реформ и открытости, имевших место в стране, и проводя сравнение с текущей ситуацией режима Северной Кореи, данная статья предоставляет примерный план того, как Корейская Народная Демократическая Республика (КНДР) может быстро реализовать экономическую модернизацию.*

Kazakh: *Бұрыңғы Кеңестік Социалистік Республикалар Одағының мүшесі болған Қазақстанның, мемлекетте өткен реформалар мен ашықтық барысында тәжірибесін қарастырып, және оны Солтүстік Корея режимінің қазіргі жағдайымен салыстырып, осы мақала Корей Халық Демократиялық Республикасы (КХДР) экономикалық жңғыртуды тез арада жүзеге асыру үшін үлгілі жоспар ұсынады.*

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