

The Impact of the Modernization (Transformation) of Kazakhstan's Political System on the In-vestment Climate

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ABSTRACT

The article examines the phenomenon of "political modernization" and its specific manifestations in Kazakhstan. The research focuses on the impact of political transformation on the investment climate in the country. The study employs a qualitative approach, including interviews with experts from foreign companies operating in Kazakhstan and a comprehensive analysis of official documents and governmental decisions on political changes and their impact on the economic and investment landscape. The main part of the study fo-cuses on the analysis of international experiences, particularly the case of political modernization in Singapore and its influence on enhancing the investment climate. It also examines the Kazakhstani case, including the country's initiatives to attract investments during the periods before and after Nazarbayev's resignation, and during Tokayev's presidency.

Keywords: Political System Modernization, Transformation of Kazakhstani Society, Kazakhstan's Politics, Investments, Kazakhstan's Investment Climate.

INTRODUCTION

Foreign investments are one of the most significant resources for the modernization of developing economies. According to international investors, one of the main restraining factors for investing in emerging markets is the perpetual political changes and the lack of system complementarity to external influences. Recent studies increasingly highlight the impact of political stability and the quality of governance on the attractiveness of countries for foreign investment. For instance, Smith & Chen (2021) demonstrate that political stability significantly increases investment flows into transition economies. Moreover, Johnson & Kumar (2023) in their analysis emphasize that the transparency of government actions directly influences foreign investors' decisions about investments.

Kazakhstan belongs to the category of countries with a 'late start,' undergoing a politico-economic transition in which fundamental transformational processes are occurring in all spheres of life. Initially, a high level of foreign investment attraction in the country was due to the stability of the political regime over Kazakhstan's 30 years of development and achieving an average world income per capita. However, a significant slowdown in growth was associated with the global problem of falling into the 'middle-income trap'. The reforms carried out after March 2019 and the subsequent public protests in January 2022, expressing social dissatisfaction with the existing state of

affairs, reflect Kazakhstan's internal need for change. This includes the need to create a transparent and accountable system for Kazakhstan's participation in international projects, attracting foreign investments for the renewal of the politico-economic system of the state.

Therefore, the aim of this study is to explore the significance of the ongoing political reforms for 'open' economic development and the impact of political risks that inevitably arise in the process of colliding old decision-making practices with new standards.

The primary goal of this research is to systematically analyze the relationship between political modernization and its impact on the investment climate in Kazakhstan. With this overarching aim, the study seeks to achieve the following specific objectives:

1. Determine the extent of political modernization in Kazakhstan: This includes characterizing the political reforms implemented since the country gained modern independence, with an emphasis on the period after the post-Soviet era when significant political changes were initiated.
2. Assess the impact of these political reforms on the investment climate: Through analyzing data from interviews with foreign investors and reviewing changes in policies and management, the study aims to determine how these reforms have influenced both the perception and the actual state of the investment climate in Kazakhstan.
3. Explore the dependency of investment activity on the stability of the political system, including institutions, legislation, and the functional content of interactions between the state and business.
4. Identify the content of practical cases and issues experienced by investors in the area of political regulation of their activities, based on conducted interviews.
5. Suggest recommendations for improving the procedures of political regulation of investment activity (amendments to legislation, mitigation of law enforcement practices, etc.).

These objectives are designed to provide a comprehensive understanding of how political modernization influences economic variables, specifically in the context of attracting and maintaining foreign investments in Kazakhstan. By achieving these objectives, the study aims to contribute valuable insights into the policymaking process, aiding in the economic development and international competitiveness of the country.

Relevance

Foreign investment is one of the most crucial resources for the modernization of developing economies. According to international investors, one of the main deterrents to investing in emerging markets is the constant political changes and the system's lack of compliance with external influences. Meanwhile, external influence through the attraction of foreign investments and the implementation of international development projects is also ambiguous, not always facilitating progressive changes in the socio-political infrastructure of the host country. Opinions on the significance of this influence vary and depend on the specific context and the period considered. Kazakhstan is categorized as a "late starter" state undergoing a politico-economic transition, in which fundamental transformational processes are taking place in all areas of life. Previously, the high level of foreign investment attraction in the country was conditioned, among other factors, by the political regime's stability over 30 years of Kazakhstan's development and achieving an average world income per capita. Subsequently, a significant growth slowdown was related to the global objective problem of falling into the "middle-income trap." Largely "decorative," the managed change of political elite after March 2019 and the subsequent public protests in January 2022, expressing social dissatisfaction with the existing state of affairs, reflected Kazakhstan's internal need for changes, including the necessity of creating a transparent and accountable system for Kazakhstan's participation in international projects and attracting foreign investments to these processes with the aim of renewing the country's politico-economic system. In this regard, the present study addresses the question of the significance of the political reforms being carried out for "open" economic development and the impact of political risks that inevitably arise in the process of transitioning from old decision-making practices to new standards of business activity introduced by international projects and foreign investments. The authors of the article pose a legitimate question about what political changes are necessary for active and effective attraction of foreign investments into the country's economy? And specifically, what is the positive effect of Kazakhstan's participation in international development projects and the use of foreign investments and technologies in building the New Kazakhstan, a concept outlined by the government as the construction of a "Just Kazakhstan"?

Hypothesis

Kazakhstan is undergoing an "era of transformation" with many unknowns. The country has declared an attractive investment climate, having implemented a series of institutional changes. Among these innovations are the introduction of an electronic government, including the principle of a "one-stop shop" for various registration and permitting documents, and the digitization of certain business and government interaction procedures. However, the birth process of a new politico-legal culture, bureaucratic, and labor ethics is proving to be quite challenging. The era of initial capital accumulation in an autocratic state was characterized by the consolidation of the state, represented by officials, as the main 'business operator,' with all the ensuing negative costs, such as a high

level of corruption in government decisions, excessive bureaucratization of management at various levels, a tendency to extract non-labor income, and a high level of 'shadow operations' in the business environment itself. Foreign companies that entered the country in the initial stage adapt to the changing situation in various ways. Some affiliate with government bodies and create conglomerates, some engage in disputes and litigations with government agencies, while others simply leave the country. Kazakhstan, in the process of constant changes, replacing legislative norms and institutions, is characterized by instability in the overall investment climate, complicating the investment process and reducing its pace and volume. In society, a negative image of foreign investment as a 'sellout of the motherland' under the control of corrupt elites is being formed.

METHODOLOGY

The methodology part employs a qualitative method of empirical research, such as expert interviews with representatives of foreign companies in Kazakhstan. The interviews were conducted individually with each representative in a conversational format in March 2023. Participating persons were from the USA, Europe, and Asia. All participants provided verbal informed consent before their participation. Given the sensitive nature of the topics discussed, particularly those related to the political landscape of Kazakhstan, and the fact that many participants were expatriates, they expressed a strong preference to remain anonymous. To respect their wishes and protect their identities, no personally identifiable information has been disclosed. This approach was deemed necessary to ensure the safety and privacy of the participants, as well as to avoid any potential repercussions they might face due to their involvement in this research.

The questions primarily focused on the political changes in the country, the impact of reforms on their operations in Kazakhstan, overall politico-economic changes, market transformations, the conditions of competition in various market segments, and the regulatory role of the state therein. The authors also conducted extensive desk research of specific cases of interaction between government bodies and business structures across various segments of the economy and different levels (including small and medium-sized businesses). This allowed for a sufficiently representative picture of the impact of political reforms on the business climate in the country.

Additionally, the article presents statistical data and reviews the dynamics of direct foreign investment in Kazakhstan, with a comparative analysis of data from the National Bank of the Republic of Kazakhstan and the World Bank.

RESEARCH RESULTS

International Experience

Theories of modernization of political systems and Kazakhstan. Modernization, in the conventional understanding, is an act of renewal or a developmental process leading to qualitative changes. It implies systemic advancement through progressive changes, where political modernization signifies certain changes in the state structure in both structural-functional and ideological dimensions. Old values are replaced by new ones, and the former regime is replaced by a democratic and legal one, affecting the entire politico-economic and social infrastructure. Political modernization means transformation, primarily of political culture, in response to changes in the social, economic, and public environment, considering the crucial fact that political changes are "inextricably linked with a wide range of socio-economic factors" (Morton R., Lewis A., 1971).

S.P. Huntington describes it as "a multifaceted process involving changes in all areas of human thought and activity" (Huntington S.P., 1975). This refers to the change in political culture and political institutions as a result of the modernization process. The development of a complex and differentiated political infrastructure to accommodate or control such new consciousness and articulate the characteristic of a contemporary political system: authoritarian or democratic (Almond G.A. and Powell G.B., 1977).

In many countries struggling for freedom, the relationship between tradition and innovation "tended to be submerged in unity, maintained by the common goal of national independence. Once independence was achieved, traditional pressure reasserted itself, usually becoming the basis for interest groups and political parties, as happened in Kazakhstan. The result is a complex mix, traditional and modern, consisting of a number of modern institutions based on a traditional foundation, which is constantly under the influence of increasing pressure from industrialization and urbanization" (Rush M., and Althoff F.). In this regard, two points are important: although the pace of political modernization becomes rapid, the factor of tradition, bureaucracy is not fully replaced by innovative meanings and values, so it is erroneous to consider old political values as something that should be destroyed or replaced; they must be combined with new institutions and behavior models.

No break with the past can be complete, and even if far-reaching and fundamental changes may be affected, continuity is preserved, at least as can be seen in some countries of the post-Soviet space.

For some, the exemplary form of a political system is adherence to the norms and values of democracy, as exemplified by countries with a competitive politico-economic environment. In this context, the British and American political systems are considered the best. Shils described them as a "regime of civil governance through representative institutions and public freedoms". However, the Kazakhstani practice demonstrates that this model, in its pure form, does not always work to the benefit of the country's and people's development.

Furthermore, any political event (war, revolution, coup, expropriation, import restrictions, etc.) in one's own country or abroad can lead to loss of profit or/and assets in international business operations (Root F., Ahmed A., 1978). As evidenced by the global pandemic, the war between Russia and Ukraine, and the imposition of sanctions against Russia, countries are significantly interlinked in the era of globalization, and any decision can lead to destabilization not only within one country but also affect others. As Stevens F.Y. (1997) noted: "State or social actions within or outside the country negatively impact a part or the majority of foreign business operations and investments."

Case Studies

How Political Modernization Facilitated the Opening and Improvement of the Investment Climate in Singapore.

Singapore, one of the smallest, most developed countries in Asia, ranks third in "The Global Competitiveness Report 2022" with a score of 98.11% out of 100%, assessing internal economy, employment, public finances, productivity, and efficiency. Furthermore, Singapore's economy has demonstrated "significant achievements" in business legislation, education, and high scores in international trade and technological infrastructure. Undoubtedly, the country has undergone numerous reforms and transformations, modernizing its political system to attract foreign investments.

Lee Kuan Yew (2005) led Singapore to become one of the world's most developed financial centers after its separation from Malaysia. The emergence and prosperity of Singapore on the international stage are linked to attracting foreign capital into the country. Therefore, studying Singapore's experience in attracting foreign investments and analyzing the specifics of its investment climate is crucial.

According to the IMF, this nation, formerly reliant on manufacturing at the time of independence, GDP per capita soared to one of the highest in the world. Its population doubled, exceeding 5 million.

Singapore flourished thanks to the inherited advantages and Lee's foresight, transforming into a global financial hub alongside New York, London, and the financial centers of the Swiss Confederation. As a key port of the British Empire, Singapore had strong positions for trade activities, given its lack of natural resources for exploitation.

Despite criticisms of Lee's authoritarian style, which stifled political dissent and press freedom, his firm rule and maintenance of stability left no room for corrupt financial methods. The order that Singapore is renowned for attracted foreign investments — billions of dollars flowed in, ensuring the country's success.

Although the government tightly controlled internal finances, preventing the internationalization of the Singapore dollar and restricting foreign bank operations, international firms saw an opportunity to establish themselves in this island state. Prudent financial and economic policies, combined with a corruption-free environment and technological advancement, led many multinational companies to choose Singapore as their regional hub. Despite Lee's authoritarian rule, he advocated for free trade, which helped Singapore attract a free flow of foreign investments and transnational giants such as General Electric and others.

One of the main factors in Singapore's rise was Lee's ability to continually benefit from global financial upheavals. This began in 1971 when the US decoupled the dollar from gold. Lee quickly capitalized on this opportunity, making Singapore a regional foreign exchange hub.

Indeed, since 1968, the Singapore government has provided incentives and preferential tax regimes to develop the Asian dollar market. This initiative helped Singapore become a financial hub in Asia. Singapore also adopted a dual strategy concerning its financial sector. Besides turning Singapore into an international financial center, it aimed for the financial sector to play a key supporting role for growing industries located in Singapore, such as manufacturing and logistics.

Lee knew that for Singapore to compete with global giants, it was necessary to provide every Singaporean with housing and employment opportunities, bringing economic and social stability. For this purpose, the Housing Development Board and the Economic Development Board were established. The Housing Board transformed this limited-space island into a world-class metropolis, helping its citizens move from small ghettos to meticulously planned mixed towns, providing superb living conditions.

Meanwhile, the Development Board gradually created Singaporean industrial sectors and enterprises to provide employment opportunities not only for local residents but also for immigrants, enabling them to thrive in an economy that could sustain a population rapidly emerging from poverty. Thanks to these efforts, Singapore's GDP per capita jumped from approximately \$500 USD in 1965 to an astounding 280% to \$14,500 USD by 1991.

Based on Lee's economic model, it has continued to grow to \$55,000 USD today. The country's GDP per capita size relative to its tiny dimensions and resource scarcity is a testament to its success in this regard. The development history of this country shows that the key to development is foreign investment attracted as a result of rational policy, just governance, the creation of a favorable investment climate, and a transparent independent judicial system.

As Singapore emerged from the British Empire, Kazakhstan emerged from the USSR in 1991. Both countries were under the great powers of their time. However, unlike Singapore, Kazakhstan has significant resource and land capital and is located within a continent. Therefore, Kazakhstan not only has greater opportunities to attract investments into its resource extraction sectors but also faces unconditional risks associated with competition from external forces for influence on the country's economic policy. Institutional changes on the path to modernization are largely dictated by the relevance of one or another external vector of influence. In particular, a distinction can be drawn between the investment strategies of Western countries and China in participating in Kazakhstani projects, each accompanied by its respective set of political risks.

In exploring the process of political modernization, it becomes imperative to analyze the contextual variances and similarities between Singapore and Kazakhstan, highlighting the impact of geopolitical, economic, and cultural factors on the adoption of reform strategies. Singapore's successful transformation into a global financial hub under Lee Kuan Yew's leadership is rooted in strong governmental control and rapid implementation of reforms, bolstered by a strategic geographical location and a focused vision for development. This contrasts significantly with Kazakhstan's scenario, where political modernization is entwined with challenges of managing vast natural resources and navigating complex regional politics. In both cases, power dynamics play a crucial role. In Singapore, centralized power facilitated swift policy-making, whereas, in Kazakhstan, the concentration of power with Nursultan Nazarbayev initially stabilized the regime but later necessitated a diversification of power sources to ensure sustainable development. The interplay between these power relations and political reforms provides essential insights into the mechanisms through which each country has approached its modernization agenda, offering valuable lessons on the balance between authoritative governance and the need for gradual political liberalization to accommodate societal demands.

While Kazakhstan shares similar initial conditions of development following the dissolution of the Soviet Union, there are significant differences from Singapore, including geopolitical position, territorial size, resource endowment, and cultural diversity. Adapting the Singapore model to Kazakhstan would require customization in several areas:

1. **Stability and Anti-Corruption Measures:** prioritizing the enhancement of political stability and combating corruption is essential, as was demonstrated in Singapore.
2. **Centralization of Power:** a temporary increase in the centralization of power may be necessary to facilitate the implementation of profound reforms.
3. **Investments in Education and Technology:** substantial investments in the education sector and technology development are critical to prepare a skilled workforce for the new economy.

If the Lee model is adapted, Kazakhstan will need to undertake the following steps: establish robust legal and regulatory frameworks to ensure governance transparency and reduce corruption, foster a competitive business environment to attract diverse international investments beyond the natural resource sectors, and develop infrastructure and services that support innovation and technology transfer, reflecting Singapore's focus on high-tech industries.

If direct application of the Singapore model is not feasible, Kazakhstan could develop its unique model considering the following aspects:

1. **Decentralization of Power:** unlike Singapore, managing such a large and diverse country as Kazakhstan may require the decentralization of power with strengthened local governance.
2. **Development of the Private Sector:** it is crucial to create conditions conducive to the growth of private enterprises, reducing dependency on state investments and large monopolies.
3. **Sustainable Resource Use:** efficient and sustainable utilization of natural resources should be a key element of the economic strategy.

The Kazakhstani Case: Kazakhstan's Initiatives to Attract Investments

Background Issue: How does Politics Affect the Investment Climate in Kazakhstan?

In Kazakhstan, N.Nazarbayev, who had been in power continuously for 30 years, abruptly resigned from the presidency in March 2019, proposing his former ally K.Tokayev as his successor for the Head of State. As a result of early elections, Tokayev was elected president in the same year, while Nazarbayev retained control over the political transition process, managing Kazakhstan's political system through other institutional mechanisms. These included overseeing the Security Council, which gained the status of a Constitutional body, leading the 'party of

power,' Nur Otan, chairing the Assembly of the People of Kazakhstan, and managing the assets of the National Welfare Fund, Samruk-Kazyna. These levers, along with the regional governors (akims) appointed by him, allowed Nazarbayev to maintain full control over the situation. This encompassed all aspects of life, including the investment climate.

Kazakhstan "Before Nazarbayev's Departure"

Nazarbayev was a Soviet-style leader who had been at the helm of the country since 1989 and under his leadership, institutional economic reforms were carried out. Namely, price liberalization was completed by the end of 1994, and currency convertibility by 1996. Kazinform (1997, October) wrote that the influx of direct foreign investments played a crucial role in the dynamic development of Kazakhstan's economy. According to President Nursultan Nazarbayev, the active work of the Foreign Investors' Council under his leadership significantly enhanced investor confidence and improved relations with governmental bodies, contributing to the growth of investments. In the political sphere, as in many former Soviet republics, a personalist power with a "super-presidential" form of government was formed, concentrating power in one hand, which seriously affected the monopolization and oligarchization of the economy.

There are several common reasons, including economic ones, that explain Nazarbayev's decision to resign. Firstly, economic problems in Russia and "transformational manipulations" in China affected the economy and political climate in Kazakhstan. Kazakhstan heavily depends on the dynamics of the economies and politics of these countries. For instance, trade between Russia and Kazakhstan decreased by 25% from 2014 to 2015, and in 2015, the Government of Kazakhstan introduced a floating exchange rate for its currency to mitigate problems associated with the recession in Russia. Sanctions against Russia imposed by most Western countries due to the annexation of Crimea, which caused the devaluation of the ruble, also affected Kazakhstan. However, the biggest problem for Kazakhstan was the fall in oil prices, as the country still heavily depends on oil export revenues. In 2015, oil accounted for 6.6% of Kazakhstan's total revenues (with total revenues making up 16.6% of GDP); however, by 2016, oil accounted for only 4.1% of total revenues (from revenues constituting 16.1% of GDP). By 2017, oil revenues returned to the 2015 level at 6.2% (from revenues constituting 18.8% of GDP), but this was due to an increase in oil production, not a rise in oil prices (IMF, 2018). Also, in 2016, Kazakhstan experienced a wave of Sinophobia and land protests, creating serious problems in bilateral relations and complicating the engagement of the dynamic momentum of China's growing consumer market, which could "reboot" Kazakhstan's economy. In 2017, in Nazarbayev's Address "New Opportunities for Development in the Era of the Fourth Industrial Revolution," the first priority was declared to be accelerated technological modernization of the economy, the importance of adopting an investment strategy in the context of new global realities. He tried to diversify the economy "from above," forcibly developing the field of high technologies, the IT sector, stabilizing the macroeconomy, and developing the "economy of simple things."

Secondly, the recognition of economic problems arising from excessive dependence on oil significantly influenced Nazarbayev's decision to step down. In February 2019, Nazarbayev dismissed his government due to the lack of progress in diversifying away from oil and gas, which led to a serious decline in the living standards of Kazakhstani citizens. The monopolization of the economy and the focus of the oligopolies around the president on extracting super-profits from the extractive sector of the economy at any cost created severe problems for the country's economic development, linked to deepening social disparities. In this context, Nursultan Nazarbayev decided to transfer official state powers to a new individual. For the establishment, the worsening social status of citizens in an oligarchic economy significantly narrowed the base of public support (Adams and Rustemova, 2009). Socio-economic indicators such as life expectancy accurately reflect that life for the broader population is challenging. While life expectancy was 66.8 years in 1990, it declined throughout the 1990s and into the 21st century, not returning to 66.8 years until 2009 (UNDP 2018).

Finally, a symbolic sign for Nazarbayev's resignation from the presidency was the event related to the death of Uzbekistan's first president, I.Karimov. The subsequent ousting of the former president's allies and his family from power influenced Nazarbayev's opinion that a managed transition would be more beneficial for himself and his family (Mac-Farquhar, 2019).

Nazarbayev was an individual, not an institutional guarantee for foreign investors in Kazakhstan. The legislative base, the legal system, and the entire political system served the needs of the super-presidential authority. The success of any investment project depended on the first person's attitude towards it, not on the effectiveness of the business program. The oligarchy played the role of a kind of "political filter" in admitting certain investors to the Kazakhstan market. In fact, these guarantees existed as long as the super-presidential power did, but with the beginning of its dismantling, the guarantees were called into question.

Tokayev's Presidency and the Investment Climate.

K.Tokayev formally became the President of Kazakhstan in March 2019, but de facto only began governing after the tragic events in January, 2022. Before this, Kazakhstan experienced a sort of duumvirate in power. During this period, Tokayev essentially performed the representative functions of the formal Head of State, while the main levers of real control of the country were still in the hands of N.Nazarbayev. According to the amendments to the Constitution of Kazakhstan at that time, Nazarbayev held the post of Chairman of the Security Council, which had the status of a constitutional body, to which the President was subordinate. Additionally, Nazarbayev led the ruling party, Nur Otan, a quasi-party structure serving as a political-ideological organ of power, and economic strings were also in his hands through the management of the National Welfare Fund "Samruk-Kazyna". Thus, K.Tokayev was only nominally in power, executing the instructions of the previous leadership of the country. He was positioned as an ally and confidant of Nazarbayev since the 1990s. Tokayev has been in the governmental bodies of Kazakhstan since 1994. When Nazarbayev was re-elected in December 2005, he left Tokayev as the Minister of Foreign Affairs. He then served as the Prime Minister of the country during a particularly acute period of political crisis. Since those years, the two politicians have formed good, trusting relationships. Moreover, he was not affiliated with any of the oligarchic circles. Tokayev's asset also included his significant international stature as Deputy Secretary-General of the UN, which undoubtedly influenced the first president's decision in choosing a successor.

The presidency was transferred based on a model of continuity. The first president had hope and institutional confidence that Tokayev would rely on the established institutions of a transformed, formally super-presidential power, continuity of political traditions laid down by the first president, and cooperation of the then-active elites without significant changes. However, it is important to understand whether the economic or political changes advocated by Tokayev are fundamental systemic changes or decorative changes, intended to create only the appearance of institutional and functional changes in the system.

Tokayev's Political Reforms

K.Tokayev began implementing his mission as the head of state from the moment he assumed the presidency in 2019. Retrospectively, his consistent steps in the political modernization of the country, known as "Tokayev's political reform packages," are evident. The first package of political initiatives from the President was proposed, starting with his first Address to the Nation in 2019 and the convening of the National Council of Public Trust (NCPT), which included authoritative civil activists and public opinion leaders under the President's leadership. The convocation of such a dialogue platform of civil society and government representatives, although not a unique political innovation, as attempts to create similar "top-down democratization formats" had been made before. For instance, the National commission on democracy and civil society under the President was established by Presidential Decree No. 1467 on November 2, 2004. Nonetheless, the NCPT managed to establish itself as an open, rotating dialogue platform, a kind of political "social elevator" for the inclusion of authoritative politicians of the "new wave," enthusiastic about modernization ideas. Moreover, the core value of this structure became the idea of implementing the principles of a "listening state." Attention should be paid to a number of proposals for the political modernization of Kazakhstan, "tested" on the NCPT platform. In particular, in 2019, amendments were made to the organization of peaceful assemblies and marches, distinguishing the rights and duties of their organizers, participants, and observers; a proposal to lower the registration barrier for creating political parties from 40 to 20 thousand members; a 30% quota for women and youth in electoral party lists; and the introduction of the institute of parliamentary opposition. The Council focused on issues such as political reform and active engagement with civil society, but it seems that the implementation of many of these reforms, as well as the registration of genuinely opposition parties, as time has shown, will be challenging. Nurseyit Niyazbekov (2020) notes that such reforms were necessary for legitimizing the regime, as although "Tokayev legitimized his rule through elections, he understands that he also needs to win the political trust of the population, also called public legitimacy, which Nazarbayev had." This characterizes one of the serious problems of the current political leader – the lack of formal legitimacy and broad public trust in the new president's ability to make decisions independently compared to the former charismatic leader of the country.

In December 2019, amidst concerns over ongoing internal political protests, Tokayev proposed formalizing the presence of opposition groups in parliament. In 2020, the upper house of parliament approved the bill, although in practice, it was very difficult for opposition groups to be elected due to the formal and informal dominance of the NurOtan party, renamed Amanat. Soon after his inauguration, Tokayev delivered the Address "Constructive Public Dialogue – The Basis of Stability and Prosperity of Kazakhstan," where he proposed the formula "Strong President – Influential Parliament – Accountable Government." He established the National Council of Public Trust to provide a "public platform" for exploring social and political issues related to the protests surrounding the presidential elections.

The next package of political reforms announced by the President in September 2020 in his subsequent Address to the People of Kazakhstan covered the following initiatives: development and adoption of the Concept of Local Self-Government; conducting direct elections of rural governors from 2021; development of the Law "On Public Control" aimed at increasing the openness and accountability to society of state bodies and the quasi-public sector; creation of a single legitimate institution of online petitions for citizens to initiate reforms and proposals, and its legislative formalization; improvement of national legislation on combating torture, bringing it into line with the provisions of the Convention against Torture and Other Cruel Inhuman Actions. The third "package" of proposals for political modernization was announced by the President after the parliamentary elections at the opening of the first session of the Majilis of the Parliament of the Republic of Kazakhstan of the VII convocation on January 15, 2021, and included the following "political innovations": lowering the threshold for political parties to enter the Majilis of Parliament from 7 to 5%; introduction of the "against all" category in ballots at elections of all levels; implementation of the Youth Development Index; adoption of the Law on the Ombudsman. The fourth "package" of initiatives was announced a year later and included the following points: legislative consolidation of the norm on mandatory consideration of a 30% quota for women and youth in party electoral lists for the distribution of parliamentary mandates and further expansion of the quota categories to include people with special needs; development of an effective mechanism to support civic initiatives in rural areas, among others.

The process of progressive evolutionary political modernization "from above" was interrupted by the events of January 2022. This was a kind of "brain shaking" in public consciousness and among Kazakhstan's "political class" in particular. Society was faced with the necessity of transitioning from "cosmetic" reforms to fundamental, systemic changes affecting the foundations of the country's constitutional order and political model. President Tokayev's determination to take full political responsibility for the country in January 2022, manifested in the adoption of relatively strict measures to restore order in Kazakhstan, has been ambiguously perceived in society and remains a sensitive issue for the current political elite. This includes taking control of the activities of the Security Council of Kazakhstan; rebranding the ruling party and the President's withdrawal from it; initiating investigations against the leaders of several law enforcement agencies suspected of attempting a coup; proclaiming the idea of fighting oligopolies; establishing the "Kazakhstan halkyna" fund, among others, triggered the start of systemic transformations of Kazakhstan's political regime. The onset of Russia's so-called "special military operation" in Ukraine at the end of February 2022 significantly accelerated political processes in several countries, including Kazakhstan. On March 16, the President firmly stated that the country indeed needed radical reforms. This address, in our view, became a key moment in the beginning of systemic political modernization. "The initiatives outlined in the address are aimed at radically transforming our political system. They originated from the long-standing demand of citizens for greater participation in state governance and deep democratization of political processes. To implement them effectively, amendments and additions to the Constitution were required. In other words, constitutional reform was necessary," said K.Tokayev, explaining the essence of the reforms being carried out. The initiatives proposed by the Head of State affect the foundations of Kazakhstan's constitutional order and were put to a nationwide referendum on June 5 on amendments to the Constitution of Kazakhstan, effectively touching upon a third of the provisions of the Basic Law. The main goal was the country's transition to a new state model, a new format of interaction between the state and society.

A distinctive feature of the Constitutional reforms proposed by Tokayev was that these amendments were formed against the backdrop of widespread public dissatisfaction with the outcomes of Nazarbayev's 30-year "political project" and the formation of a super-concentrated model of power. As foreign experts noted in a Chatham House report before the protests in January, "centralization of power in Kazakhstan means that civil society and political opposition are largely fictitious. Their existence is tolerated to the extent that the authorities can manipulate them, confine them within permitted boundaries, and use them for their own interests and distractions... Although Kazakhstan has undertaken limited governance reforms, they have recently been of a technocratic nature and have not touched the higher echelons of state administration. There are frequent reshuffles at the top levels of government, but the system essentially remains unchanged. There are few women in leadership positions. The group of talented newcomers in high government posts is small, as the existing system of patronage allocates positions and posts among business interest groups, often in a way that balances competing influences. Key decisions and strategy are determined in a close circle and still take into account Nazarbayev's position. No significant shifts towards political liberalization have yet occurred... In reality, Kazakhstan has a closed informal political system that truly distributes power among the elite and decides how to manage Kazakhstan. This blurred decision-making process takes place at the level of informal patronage relationships. As president, Nazarbayev stood (and still stands) at the top of a carefully maintained vertical power structure that allowed him to manage a thoughtful system of checks and balances between different interest groups. By establishing a rent-distribution system for family members and close elite allies, Nazarbayev built informal networks, creating a buffer of adherents who are tied not to Kazakhstani institutions, but to him personally. The political economy of Kazakhstan is

centered around the Nazarbayev family and its allies. Like in business, the 'Nazarbayev Corporation' relies on the power vertical. Rent is allocated according to one's position in the hierarchy, with those closest to Nazarbayev benefiting the most. The most valuable economic assets are usually owned either by his family or by particularly close individuals in the presidential circle. From the early days of independence, Nazarbayev relied on such assistants or 'treasurers' to manage the patronage system. Each person was used for different purposes, so that no one could form a complete picture of his affairs" (Bohr, et all, 2019).

A principal aspect of the constitutional reform initiated by Tokayev was the removal of the clause regarding the status of the First President from the Constitution, transforming the "super-presidential power" into a more balanced and legally limited authority that meets public expectations. Significant points of political modernization according to the amendments in the Constitution include: the transformation of the Constitutional Council into a Constitutional Court, accessible to all citizens seeking protection of their rights; the incorporation of a provision in the Basic Law stating that land and its subsoil, flora and fauna, and other natural resources belong to the people, with the state exercising ownership rights on their behalf, and land can also be privately owned on the basis set and within the limits established by law; the proposal to transition to a more harmonious mixed electoral system, implementing a mixed majoritarian-proportional model for electing members of the Mazhilis (70% on a proportional basis and 30% on a majoritarian basis) and regional maslikhats, which will more distinctly reflect the interests of voters at both national and regional levels; elimination of the Assembly of People of Kazakhstan's quota in the Mazhilis but its transfer to the Senate and reduction from 9 to 5 deputies, consequently, the total number of seats in the Mazhilis will decrease; Presidential appointment of governors of regions and cities of republican significance will be carried out on an alternative basis considering their candidacy in maslikhats; significant reduction of the registration threshold for parties, which will be reduced fourfold – to 5,000 people from the current 20,000, and the minimum number of regional representatives will be reduced threefold – from 600 to 200. This measure, according to experts' forecasts, will increase the number of registered parties and, therefore, strengthen competition in the party-political field. Eliminating the actual monopoly of one party will allow the representation in power of a broad spectrum of public attitudes, alternative national development projects, and generally improve the quality of state decisions. The constitutional ban on the President and his relatives holding political positions and leading posts in the quasi-state sector, while limiting the rights of specific individuals, objectively responds to society's negative reaction to manifestations of tribalism and nepotism in power. The equal distance from any political forces and the non-partisan status of the Head of State are also intended to create transparent and fair "rules of the game" for all those wishing to participate in the political process. Overall, these constitutional amendments, approved by voters on June 5th, will allow decisive steps to be taken in building the "New Kazakhstan," whose mission, according to the President, is to uphold the constitutional rights of every citizen, to form a new political culture based on mutual respect and trust between the state and society. This strategic goal entails, in addition to constitutional changes, altering the entire "normative framework" of the state. In particular, it is necessary to introduce corresponding changes in more than 20 legislative acts of the state. In the process of institutionalizing the idea of "New Kazakhstan" and robust law enforcement practice, these normative changes are crucial as they envisage a radical transformation of the power system and "rules of the game." In particular, among the notable innovations of political modernization, it is necessary to mention, first of all, the transition from "super-presidential power" to a system of a new balance of powers between the president, government, and parliament, expressed by the Head of State in the formula: "strong president - influential parliament - accountable government." This configuration, along with an independent judiciary and media, is typical of a number of liberal Western states and is not quite typical for the post-Soviet space, where presidential power often stands above other branches of government and is essentially paternalistic. In this regard, we believe that on the path to forming the "New Kazakhstan," it is necessary to take fundamental steps in two key areas of modernization: consistent reforms of the judicial and law enforcement system; a fundamental change in the social environment in the area of ensuring freedom of speech, forming an "open society," and a diverse, alternative information space of the country.

New Kazakhstan

Discussing the economic component of the reform process in Kazakhstan, it is important to note that external economic factors also play a role in decision-making regarding domestic economic policy. The sanction regime imposed on Russia due to the annexation of Crimea, as well as the coronavirus pandemic, have significantly impacted both the economy as a whole and the investment activity. Subsequently, with the onset of the war in Ukraine, the economic situation worsened. Currently, the economic policy of Tokayev's government is the most vulnerable area for criticism. Despite the announcement of the New Economic Program in September 2023 in the Annual Address to the people of Kazakhstan, it remains unclear whether 'Team Tokayev' will be able to achieve significant economic changes. As many experts believe, the economic block of the government is a serious 'problem area'. Firstly, under Nazarbayev's government, the country continued to operate within the framework

of a liberal market economy (established since the mid-1990s), where the main role of the state lies in facilitating economic development. In a situation of international economic turbulence, Tokayev faces the need to balance between stabilization, i.e., productive social policy of the state, and forced economic development, which involves significant support for entrepreneurs and the formation of an innovative economy based on encouraging competition. Moreover, Tokayev is 'bound' by obligations to existing politico-economic elites, who provide him with support in power. Indeed, the continuity of elites and their political ambitions seem to explain the lack of radical changes in economic policy implementation. For instance, consensus on economic policy between the president and the elite did not lead to economic changes in any country; change occurred only when the president, to some extent, opposed the elite, pursuing his own economic course against the interests of the elites. Although Cornell and Starr (2019) optimistically assesses Tokayev's presidency, mentioning events in many areas, including the economy, civil society, and international relations. Starr emphasizes that Tokayev has the potential to make significant changes, for example, he expressed satisfaction that the government has reformed the legal system to make it more accountable to the people according to the concept of a 'listening state.' The president of Kazakhstan is actively addressing the issue of dishonest investors who do not meet their obligations. This policy was highlighted during the government's interaction with ArcelorMittal Temirtau, emphasizing the resolution of such matters without resorting to extensive legal disputes. This approach underscores the commitment to align foreign business operations with the national interests and welfare of the Kazakh population (Zakon.kz, 2023).

As shown by the dynamics of the investment climate (Table 1.), in 2015, the inflow of foreign investments sharply declined. As previously mentioned, that year the government of Kazakhstan introduced a floating exchange rate for its currency to mitigate problems associated with the recession in Russia."

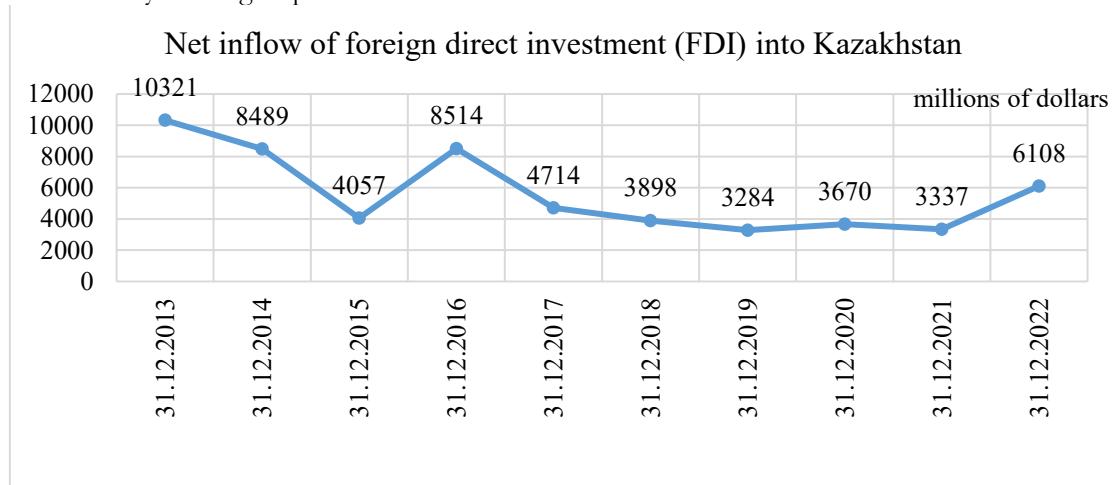


Table 1. Net Inflow of Direct Investments to Kazakhstan

Source: The Table Created by Author From <https://nationalbank.kz/ru/news/pryamye-investitsii-po-napravleniyu-vlozheniya>

After 2016, there was a gradual decline in the indicators. In 2019, with the change of power from N.Nazarbayev to the new leadership of K.Tokayev, the rate reached its lowest between 2013 and 2022. Under the new government, significant changes did not occur, but this can be attributed to the global pandemic of Covid-19, which led to an economic downturn in almost all countries. Kazakhstan was also affected by the 'January Events' of 2022, which significantly shook its investment position on the world stage. However, K.Tokayev took immediate actions to mitigate the consequences. For instance, the address "New Kazakhstan: The Path of Renewal and Modernization" gave a new impetus to development, according to which a Constitutional reform was conducted to dismantle the super-presidential system of governance in the country. The main goal was to transition the country to a new state model and a new format of interaction between the state and society. As statistics show, these decisions might have had a positive impact; in 2022, there was an increase in investments.

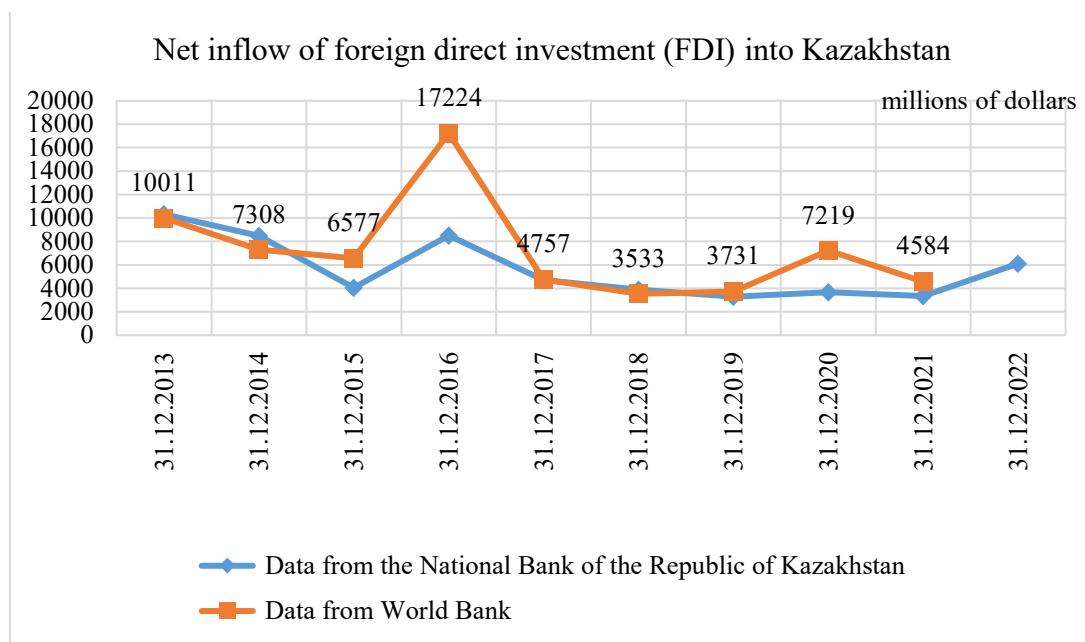


Table 2. Net Inflow of Direct Investments to Kazakhstan (in Million Dollars)

Sources: The Table Created by Author from [<https://nationalbank.kz/ru/news/priamye-investitsii-po-napravleniyu-vlozheniya>, https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2021&name_desc=true&start=1970&view=chart]

As shown in Table 2, the data sources from the National Bank of the Republic of Kazakhstan and the World Bank data on direct investment inflows diverge significantly from each other between 2016 and 2020. Overall, this is evidence that double standards, bureaucracy, and a lack of transparency still exist in Kazakhstan. Although the reforms being implemented call for complementarity of the system.

As previously stated, under Nazarbayev, a super-presidential power was established, which was an instrument of guarantees for foreign investors. Now, the President does not directly deal with this. It falls outside the scope of his direct competence. He is the supreme arbiter of his state, standing above the structure. Parliament develops the regulatory framework, which is complementary to investors. What is complementarity? It is a convenient, accommodating environment conducive to attracting investments. For instance, Kazakhstan's tax system, formerly punitive in nature, is now undergoing certain changes. Recently a new tax code, a new social code, and a law on public control were announced, some of which have already come into effect. These innovations are intended to attract investment, create a tax system that will stimulate and motivate investments, and offer not just one-time benefits but systematic solutions to not only current but also strategic development problems. A systemic approach means change as a whole, for example, the ideology of the tax code. And the ideology of the tax code lies in the motivation and stimulation of business. That is, business will find it easier and more convenient to pay taxes than to evade them. An example of this is "double bookkeeping" and the habit of paying wages in envelopes.

FINDINGS

The basis for our discussions was interviews with representatives of foreign companies operating in Kazakhstan, aimed at understanding the impact of political changes on business and Kazakhstan's attractiveness to investors.

First, there is a significant correlation between political reforms and the attractiveness of Kazakhstan to international investors. Improvements in transparency, legal frameworks, and governance are enhancing investor confidence and contributing to economic development. Also, challenges in political and business environment: despite these improvements, ongoing issues such as nepotism, corruption, and instability in investment legislation continue to pose risks to businesses and deter potential investments. Finally, sector-specific insights and international perspectives: different sectors and international perspectives reveal varied experiences in Kazakhstan. For instance, Chinese investors face 'directed sinophobia,' while European and U.S. investors note improvements in bureaucratic efficiency and economic policies.

The key question: is there a significant gap between theory and practice, and is only an appearance of forming a new type of relationship between the government and society, the state and business being created?

In search of answers to questions about the impact of political changes on business and Kazakhstan's attractiveness to investors, we conducted interviews with representatives of several foreign companies based in Kazakhstan. The aim of the interviews was to get an inside view of the challenges investment companies face

working in Kazakhstan, to candidly discuss pressing issues, the assessment of bureaucracy, and generally the political climate and economic opportunities in Kazakhstan. Expert opinions were provided by representatives of European companies, independent investors, a representative of a U.S. bank in Kazakhstan, and investors from Asia who are operating in Kazakhstan.

An investment specialist from the New York American Bank's office in Kazakhstan, who has lived in the country since 1992, shared his views on Kazakhstan's current policy and the changes the bank has faced and continues to face. The policy under the first president, he believes, cannot be compared with the present. After the dissolution of the USSR, the country lacked functioning laws and rules. The market was "empty." The "economy first, then politics" approach played its negative role. Business was not protected, there were no legitimate legal regulators. Nepotism, paternalism, corruption, etc., posed a serious threat to the principles of effective management not only at high levels of government but also negatively affected the activities of this banking structure.

Speaking purely from a business perspective, as previously mentioned, the first president of the country used to be the guarantor. However, when business is tied to one person or a group of his appointees, it's not a stable institutional mechanism but rather a risky operation in terms of investment. The funds earned by businessmen could be expropriated at any moment for any reason. According to Nazarbayev's own statement: "he can take any businessman by the hand and lead him to court," meaning to legal accountability. However, in the absence of an independent judiciary, this meant that the state's bureaucratic apparatus, which includes the courts and the prosecutor's office, could, on higher orders, start harassing any businessman unfavorable to the authorities for any fabricated reason. However, for an attractive business environment, the system must work impartially and independently of certain human factors. "One wants to believe," says the Bank representative, "that in the 'New Kazakhstan,' everything will be different, as Kazakhstan has great potential both in its economy and its highly competitive human capital. With the change in the country's leadership, the political system is currently being rebooted, outlining key more transparent approaches for further development: a new economic policy, development of the real sector, strategic investments in the country's future, a reboot of state governance, law, and order.

Within these directions, the Government and Parliament were faced with a number of very important and complex tasks, formulated based on a deep analysis of the current situation.

However, judging by how the tasks set out in the addresses were addressed, one can note, at a minimum, a low level of executive discipline among top management and the "political class" of the country, and overall, the non-productivity and inefficiency of the state apparatus, as noted by the investment specialist of the American bank.

Representatives of the Chinese Businessmen's Association in Kazakhstan criticized the political instability of investment legislation, the absence of a uniform and fair judicial practice. They particularly pointed out often top-supported "anti-Chinese sentiments" in Kazakhstan. Misunderstanding of the purpose of their presence was expressed in concerns about Chinese involvement in various business environments and regions. In fact, they had certain grounds, both in the economic and social spheres of the country. For instance, the controversy over land leasing, the purchase of "Aktobe Munaygaz," followed by a mass expansion of Chinese specialists, which caused protests among locals working in the oil and gas sector and beyond.

There are suspicions that "directed sinophobia" in Kazakhstan, the widespread dissemination of fake information or the deliberate concealment of information about specific investment projects involving Chinese capital, could lead to serious conflicts and disproportions. In this context, open dialogue with the population, conducting an information campaign, and broad public access to objective data and projects, as well as the readiness of government bodies to assist business, can help improve relationships and avoid misunderstandings among the local population. Regarding business opportunities, the representative of the Chinese businessmen expressed the view that there are many opportunities here, competition is weak, and if there were a good politico-economic climate, an "economic ecology." He spoke quite aphoristically, in the Chinese spirit: Ecology of clean water, clean air, "clean pocket." "Economic ecology" means purity, fair play, justice for all.

At the same time, representatives of Dutch businessmen who established their businesses in Kazakhstan in the late 1990s and continue to operate in the country's market view the transitional changes optimistically. According to them, their business has weathered all the economic downturns of the past 30 years. "This is a natural form of development," say the businessmen, even in good times predictions of impending downturns arise. Resistance to change is a natural human reaction – it's the first response to any reform. In Kazakhstan, much work has been done to eliminate bureaucracy. One example is the electronic government – egov – a significant advancement that minimizes paperwork complexities in business operations.

However, regarding land issues, Dutch investors disagree with the state's ownership of land, as they see land as a powerful asset that remains underutilized in Kazakhstan. The country, with its vast territory, has significant potential for developing business activities. The total area of agricultural land ready for use is 3 million hectares.

While the public's concern is understandable, the state should not ignore or fail to listen to the people. Yet, it is necessary to rationally revise land legislation to attract investors for long-term leasing on reasonable and lawful terms, as unused land deteriorates and requires careful management.

Meanwhile, the Land Code states, "Secured property rights (fixed and unfixed) are recognized in accordance with the Civil Code and the Land Code. Agricultural lands and certain other natural resources may only be owned or leased by citizens of Kazakhstan."

In May 2021, Tokayev signed amendments to the law prohibiting foreigners, stateless persons, foreign legal entities, and legal entities with foreign participation, international organizations, and scientific centers with foreign participation from owning or leasing agricultural land. Modernization requires not only new paths for domestic system development but also raises questions about preserving accumulated experience and optimally combining national and international interests.

European businessmen note the relatively low innovation culture among the population, including the use of digital skills. The OECD's 2021 "Skills Strategy" project showed that the country is rapidly improving the use of innovations at work, especially digital skills. However, the skills of the youth remain significantly below the OECD average. Adults also possess relatively weak basic and problem-solving skills, as the culture of adult learning is insufficiently developed. Among the educated youth, brain drain is increasing. Complaints about low wages, unsatisfactory working conditions, low social benefits, etc., are prevalent. It is necessary to create conditions for talented youth. The survey results from foreign investors highlight a significant correlation between the modernization of the political system and the investment climate in Kazakhstan.

ANALYSIS

1. European and American perspectives: representatives from European companies and U.S. banks noted a shift from a nepotistic and corrupt system under the first president to a more transparent political environment under new leadership. However, they remain cautious as historical challenges continue to surface occasionally.
2. Chinese investors' concerns: The Chinese Businessmen's Association criticized political instability and anti-Chinese sentiments, which affect their business operations and could lead to significant conflicts.
3. Dutch Investors' optimism: Dutch businessmen are optimistic about the economic transitions and have noted the advantages of electronic government systems like 'egov' in reducing bureaucratic complexities.
4. Land ownership issues: both local and foreign perspectives highlight controversies over land ownership and utilization, pointing to the need for a rational revision of land legislation.

Expert opinions: An investment specialist from the New York American Bank shared insights on the evolution of Kazakhstan's policies from 1992 to present, discussing the challenges of operating in a market initially devoid of solid legal frameworks. Similarly, representatives from the Dutch and Chinese business communities provided specific examples of operational challenges and opportunities.

This finding suggests that political reforms and enhancements in governance mechanisms are closely linked with the country's attractiveness to international investors. The modernization efforts, which include improving transparency, legal frameworks, and political stability, appear to foster a more conducive environment for foreign investments. This environment not only enhances investor confidence but also contributes to the overall economic development of Kazakhstan. By aligning its political system with international standards for governance and transparency, Kazakhstan is likely positioning itself as a more reliable and appealing destination for foreign capital. This correlation underscores the importance of continued political modernization as a key factor in attracting and retaining foreign investment, which is crucial for the country's sustained economic growth and integration into the global economy.

This discussion emphasizes that while Kazakhstan is making strides in political and economic reforms, significant challenges remain. Addressing these effectively is crucial for sustaining and enhancing its appeal to global investors. The insights gathered from international investors underscore the need for continued efforts in political modernization to create a stable and attractive investment environment.

CONCLUSION

This study has systematically examined the impact of political modernization on the investment climate in Kazakhstan. Our comprehensive analysis, which combines qualitative interviews with foreign investors and an extensive review of political reforms, confirms that political modernization significantly improves the investment environment. Key findings include:

1. The attempt at political transition through intra-elite continuity of power without systemic changes has effectively led to a diarchy model, weakening the power vertical and ultimately leading to political destabilization (January 2022).
2. Legal regime modernization: Amendments to the Constitution of the Republic of Kazakhstan and other legislative acts; conducting relatively competitive elections for legislative bodies; enhancing the role of local representatives/bodies; and removing provisions regarding the special status of the first president, Elbasy.
3. Changes in foreign investor confidence: As a result of these reforms, foreign investor confidence has increased. This is particularly evident from interviews, where investors highlighted transparency and predictability of the investment environment as key improvements.
4. Challenges and barriers: Despite these positive outcomes, issues such as bureaucratic inertia and residual corruption continue to impede the full realization of the potential benefits of political modernization.
5. In conclusion, this study underscores the role of political modernization in creating a favorable investment climate in Kazakhstan. By continuing on this path, Kazakhstan can strengthen its position as an attractive destination for global investors, fostering sustainable economic growth and development.

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