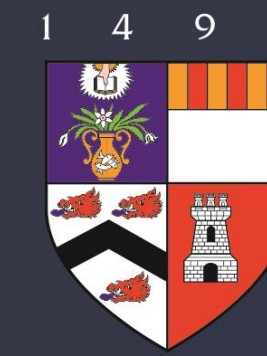


Foreign Direct Investment, oil price and economic growth: empirical evidence from Kazakhstan

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1. Motivation/Research question

The interrelationship between the inward Foreign Direct Investment (FDI), Oil price and economic growth (real GDP growth) is a combination of three research fields:

- FDI – real GDP growth
- Oil price – real GDP growth
- FDI – Oil price

has significant policy implications for oil-rich countries such as Kazakhstan.

The author is **inspired by**:

- Mixed results in each research field – overall effect is country specific;
- Lack of studies conducted on Kazakhstan do not cover the global economic crisis in 2008 and the recent oil price downturn;
- None of studies on causal link between variables simultaneously.

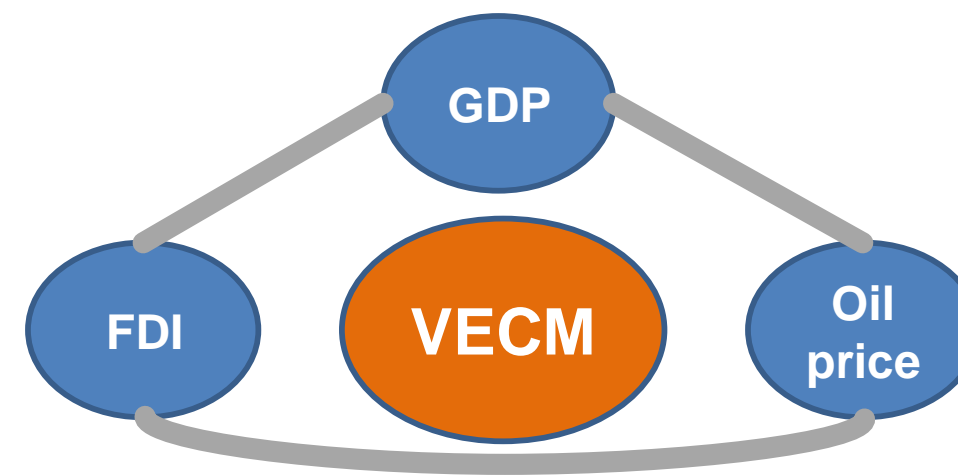


Fresh look at the interrelationship between the three variables of Kazakhstan **brings**:

- ✓ New empirical evidences to FDI and real GDP growth after controlling for the effect of oil price;
- ✓ Defining the possible causality from Oil price to FDI;
- ✓ Evidence on the possible curse of the hydrocarbon abundance of the country.

2. Methodology

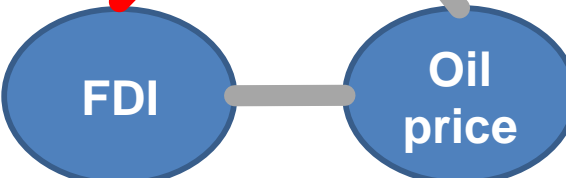
Causal relationship between FDI, real GDP growth and Brent spot oil price by exploiting **Johansen Trace Co-integration test** and the **augmented Granger causality Vector Error Correction Model (VECM)** for the data from 1993 till 2015



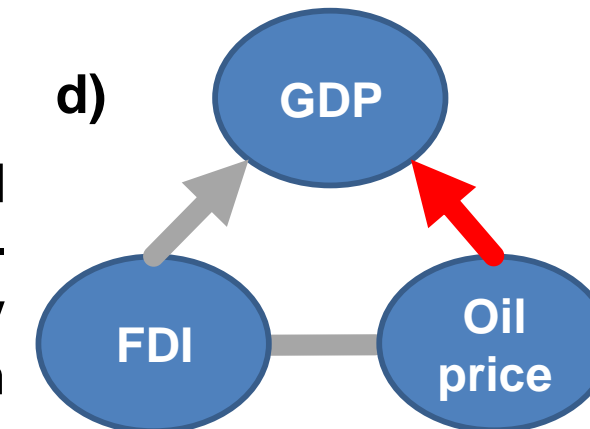
3. Main findings

a) The Co-integration test results → long run (LR) equilibrium relationship between series.

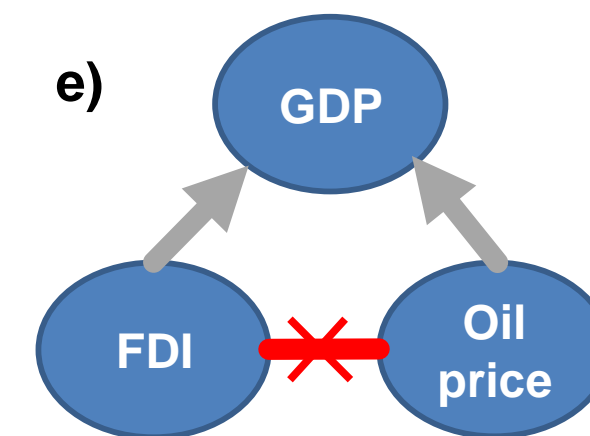
b) LR and SR Granger causality from FDI to real GDP growth → country is benefiting from FDI



c) No causality from GDP to FDI → very few market-seeking or efficiency-seeking direct investors, risk of “resource curse”.



d) LR and SR causality from Oil price to real GDP growth → country's economy is driven by petroleum industry.



e) No causality from Oil price to FDI → most direct investors are sensitive to the volume of oil production rather than oil price.

4. Conclusion/ Recommendations

It is suggested policymakers of Kazakhstan to:

- **Enhance the oil revenue management:** better control over the withdrawal procedures from sovereign fund, broadening decision-making body, making it consistent and transparent;
- **Further economic diversification:** strengthening control over execution of programs, benchmarking of development institutions etc.;
- **Strategic goal of non-resource seeking FDI:** improvement of infrastructure and quality of environmental institution