IB Research Opportunities in Central Asia

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1 Introduction

The countries of Central Asia—Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan—share a common geography and history.[1] Located in an arid region in the heart of the Eurasian landmass, Central Asia encompasses the Silk Road, the historic overland route between Europe and Asia (Fig. 1). The region has been inhabited since antiquity by various Turkic and Mongol tribes who developed sophisticated civilizations in the riverine south as well as nomadic pastoralism in the northern and central steppes (Collins, 2006: 1–4; Pomfret, 1995: 1–5).

The five Central Asian countries are predominantly Muslim. The majority populations of Kazakhstan (Kazakhs), Kyrgyzstan (Kyrgyz), Uzbekistan (Uzbeks), and Turkmenistan (Turkmen) speak close-related Turkic languages, while Tajikistan's Tajiks and more recent Slavic, German, and Korean immigrants are the main non-Turkic groups in the region (Pomfret, 1995: 3–6). All five countries came under Russian imperial rule in the nineteenth century and became titular republics under the Soviet Union after the 1917 Russian Revolution (Cooley, 2012: 17–18). After the collapse of the USSR in the early 1990s, the Central Asian republics became independent countries and suffered some of the most sustained economic contractions among the former Soviet Union countries.[2] However, over the next two decades, these economies recovered, while nation states of varying stabilities have emerged (Collins, 2006: 1–6). Table 1 presents a snapshot of

[1] Officially, Kyrgyzstan is called the Kyrgyz Republic.

[2] We use the terms USSR and Soviet Union interchangeably. Former USSR countries are Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

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Fig. 1 Maps of Central Asia and Kazakhstan (detail): (**a**) Central Asia and (**b**) Kazakhstan. Source: United Nations

Table 1 Central Asian countries' basic economic data 2019–2020

	Population, (millions)	Area (thousands sq. km)	GDP per capita ($)	Urbanization rate (%)	Life expectancy, (years)
Kazakhstan	18.8	2725	9056	57.7	73
Kyrgyzstan	6.6	200	1174	36.9	72
Tajikistan	9.5	141	859	27.5	71
Turkmenistan	6.0	488	7612	52.5	68
Uzbekistan	34.2	449	1686	50.4	72

Source: The World Bank

the population, gross domestic product (GDP) per capita, and life expectancy of the Central Asian countries.

Despite the historical, economic, and political similarities, the Central Asian countries differ in significant respects: Kazakhstan and Turkmenistan, endowed with abundant mining and petroleum resources, are the richest countries in the region and have the highest urbanization rates as Table 1 shows; Uzbekistan and Tajikistan, less endowed with natural resources, are predominantly rural and poorer.

Even though Central Asia has risen in economic and geopolitical significance in the last two decades (cf. Collins, 2006; Cooley, 2012; Nordin & Weissmann, 2018), international business (IB) scholars have largely ignored the region. Using the Web of Science database, we searched past issues of the six premier IB journals—*Journal of International Business* (JIBS), *Global Strategy Journal*, *Journal of World Business*, *Management International Review*, *International Business Review*, and *Journal of International Management*—but found only two articles in which at least one of the Central Asian countries was the main empirical setting. We are not sure why scholars have ignored Central Asia, given the recent rise in strategy and IB research in emerging countries (e.g., Cuervo-Cazurra & Genc, 2008; Hoskisson et al., 2000; Luo & Tung, 2007; Meyer & Peng, 2016). We speculate that scholarly neglect of Central Asian countries may be due to the relatively small economic footprint of the region (compared to emerging markets such as Russia, China, and Turkey) and its perceived isolation from the global economy.

In this chapter, we show that the Central Asian context holds promise for advancing IB research. Using Kazakhstan, the most developed country in Central Asia, as a lens into the region, we argue that Central Asia presents at least four opportunities to advance IB research. First, due to its geographical proximity and economic links to regional powers Russia, China, and Turkey, Central Asia is susceptible to exogenous shocks involving its powerful neighbors. Since MNEs in the region are not isolated from these events, the region offers IB scholars ways to study the influence of geopolitical discontinuities such as inter-state conflict and sanctions on the policies of MNEs, an undeveloped area of IB scholarship (Sun et al., 2021).

Second, Central Asia offers opportunities to understand the nonmarket strategies (NMS) that foreign MNEs adopt to navigate the host country environment at the *host country-MNE* and *home country-MNE* interaction levels. As Post-Soviet Central

Asia emerges as an important arena for great power competition involving Russia (the former imperial power), China (with the need for energy and security on its Western border), and the United States (with the need to secure adjacent regions such as Afghanistan) (Cooley, 2012; Nordin & Weissmann, 2018), it is likely that the economic concerns of foreign MNEs coincide with the security interests of their home country (great power) governments (Phan, 2019). Yet, the IB literature largely ignores the links between international politics and MNE policy, especially in contexts of heightened national security interests. Central Asia offers the opportunity to study this link.

Third, as Central Asian firms start to internationalize their operations, the region offers opportunities to further understand the dynamics of internationalization of state-owned enterprises (SOEs), an emerging area of inquiry in IB scholarship (Cuervo-Cazurra et al., 2014; Kalasin et al., 2020; Wang et al., 2012). Much of that research, focused on emerging countries such as Brazil, China, and Russia, assumes the existence of a unitary state. However, Central Asian governments, who control their internationalizing SOEs, operate not only on formal affiliation within the modern state but also on informal clan networks (Collins, 2006). Central Asia may enable scholars obtain a disaggregated understanding of the impact of formal versus informal affiliation of SOEs' decision-makers on firms' FDI location choices, level, and type of FDI.

Lastly, Central Asia could be fertile ground for investigating whether developed country MNEs (DMNEs)—with superior brands and technology—are more likely than emerging market MNEs (EMNEs) to compete successfully in smaller emerging markets. Research so far has highlighted the firm-specific advantages that EMNEs enjoy because of their ability to negotiate weak institutional environments (Celly et al., 2016; Cuervo-Cazurra & Genc, 2008; Holburn & Zelner, 2010). Central Asia offers an additional explanation: EMNEs may compete successfully in other emerging countries not simply because they have developed capabilities to build cooperative relationships in weak institutional contexts, but also because of the peculiarities of industry structure and the cognitive maps of that individual managers use to navigate their host country environments.

This chapter is organized as follows: first, we present a brief historical and economic overview of Kazakhstan, the most developed country in the region. Thereafter, we present three cases of internationalization of Kazakh firms and then follow up with a discussion of the key themes from the cases. We conclude by reflecting on the challenges in doing organizational research in the region, and opportunities that Central Asia holds for advancing IB research.

2 Kazakhstan: Brief Historical and Macroeconomic Overview

2.1 State-Led Modernization, Resource Booms, and a New Capital City

Kazakhstan's demography and economic development, like that of the other Central Asian countries, were indelibly transformed by the USSR's policies (Collins, 2006; Cooley, 2012; Pomfret, 1995). During the premiership of Joseph Stalin (1922–1952), the Soviet regime built a vast network of labor camps in northern Kazakhstan where political prisoners from across the USSR were detained, becoming involuntary migrants to Kazakhstan (Bissenova, 2012). After Stalin's death, Nikita Khrushchev's government encouraged one to two million ethnic Russians, Belarusians, Ukrainians, and Volga Germans to settle Kazakhstan's "virgin" steppe lands. These waves of forced and voluntary migration altered Kazakhstan's ethnic composition so that by 1979, the population was 36% ethnic Kazakh and 41% Russian (Svanberg, 2014: 1–16). In effect, by the end of the twentieth century, ethnic Kazakhs were a minority in their titular republic.

Under Soviet central planning, Kazakhstan suffered far-reaching ecological damage. The Aral Sea, once the fourth largest lake in the world shrunk to 10% of its original size due to intentive state-directed irrigation (Pomfret, 1995: 28–32). Furthermore, extensive nuclear tests conducted by the Soviet regime between 1949 and 1989 in Semipalatinsk eventually took a devastating human toll in the form of cancers and birth defects among the local population (Nazarbayev, 2012; Pomfret, 1995: 28–32).

The impact of the Soviet system on Kazakhstan's economy was more favorable. While a part of the USSR, Kazakhstan became a significant grain exporter, heavy industries, related to processing of coal and iron ore and manufacture of military equipment, were well-developed (Olcott, 1995: 271–298; Pomfret, 1995: 32–35, 75–97); physical infrastructure such as roads, railroads, and air routes were developed; and universal literacy was achieved. After the Soviet Union collapsed in 1991, Kazakhstan became an independent republic under the leadership of Nursultan Nazarbayev.

At independence, Kazakhstan was a lower middle-income country. However, its significant but decaying industrial infrastructure was designed to serve Russia. As Pomfret put it, "all [Kazakh] roads, railways and air routes led to Moscow" (Pomfret, 1995: 134). Thus, when the Soviet Union disintegrated, Kazakhstan suffered severe economic dislocation. Between 1991 and 1995, Kazakhstan's GDP fell by 40% and inflation hit 2200% (Alam et al., 2000). Since reaching a nadir in the immediate post-independence era, standards of living in Kazakhstan have improved remarkably. This is largely due to proceeds in the last 25 years from export of the country's significant natural resources, such as iron ore, copper, uranium, and hydrocarbons.

In 1997, Kazakhstan's government moved the country's capital from Almaty in the south to Astana in the north of the country (Fig. 1). Since becoming the country's capital, Astana has emerged as a showcase of futuristic architecture (Fig. 2), colorfully described as "brash and grandiose—and wildly attractive" by *National*

Fig. 2 Nur-Sultan, a modern metropolis in the steppes. (Top) Skyline showing Baiterek Tower; (Bottom) Khan Shatyr, the largest "tent" in the world

Geographic Magazine (Lancaster, 2012). The city hosted the 2017 World Expo and was renamed Nur-Sultan in 2019 in honor of President Nursultan Nazarbayev.[3]

Kazakhstan is currently considered an upper middle-income country (The World Bank, 2019). Its population of 19 million people remains ethnically diverse. About

[3] We use the historically correct name of the city throughout this chapter.

58% of the population live in major cities, the largest of which are Almaty (population 1.9 million), Nur-Sultan (1.1 million) and Shymkent (1.0 million), Aqtöbe (500,000), and Qaraghandy (500,000) (Bureau of National Statistics Republic of Kazakhstan, 2021). Kazakh and Russian are official languages while English has become popular particularly among younger Kazakhs living in the major urban centers.

2.2 Macroeconomic Overview

Being an integral part of the USSR, Kazakhstan inherited a highly planned economy at independence: private property was non-existent; and prices were controlled by government bureaucrats (Alam et al., 2000). Over the past three decades, as price liberalization and privatization took root, the economy has grown to be the largest economy in Central Asia and second largest (after Russia) among the former USSR countries.

Starting from a relatively low base in the 1990s, Kazakhstan's GDP grew steadily in the 2000s. In 1999, Kazakhstan's GDP was $17 billion and GDP per capita $1132; by 2013, GDP had increased to $237 billion, while GDP per capita reached approximately $14,000 (International Monetary Fund, 2021). GDP growth, fueled by the global boom in commodity prices in the 2000s, was accompanied by declines in the poverty rate from 47% to 2.5%. Figure 3 compares the trends in GDP per capita of Kazakhstan, the other four Central Asian countries, and Russia.

Kazakhstan's GDP per capita has since dropped from the 2013 peak due to various factors: decline in oil prices; Western-led sanctions on Kazakhstan's largest trading partner, Russia, which led to devaluation of the national currency (the tenge); and the 2020 COVID-19 pandemic which led to 2.6% decline in GDP. Nevertheless, with a GDP per capita of $9056 in 2020, Kazakhstan is still the most prosperous country in Central Asia.

Over half (54%) of GDP growth in the period 2000–2019 was concentrated in wholesale and retail trade, manufacturing, taxes on products and transportation, and storage sectors (Fig. 4). As of 2019, services accounted for 52% of Kazakhstan's GDP; primary industries, such as agriculture, mining, quarrying, forestry, and fishing, 21% of GDP; manufacturing 11%; taxes on imports and products 9%; and construction 4% (Statistics Committee of Kazakhstan, 2021).

Kazakhstan's export sector is dominated by merchandise exports. In the period 2008–2018, 91% of Kazakhstan's exports were merchandise and 9% services (National Bank of Kazakhstan, 2021a). Figure 5 and Fig. 6 show a breakdown of the country's merchandise and service exports, respectively. Fuel and mining products (the dark blue trend in Fig. 5) were the predominant form of exports in the period 2008–2019. In 2019, for instance, Kazakhstan's fuels and mining products comprised $46 billion (81%), while chemicals, iron and steel, agricultural products, and manufactured goods generated $11 billion (19%) of merchandise exports. Transportation and travel are the principal forms of service export in the period 2008–2018, accounting for almost $6.3 billion (86%) of service exports in 2018.

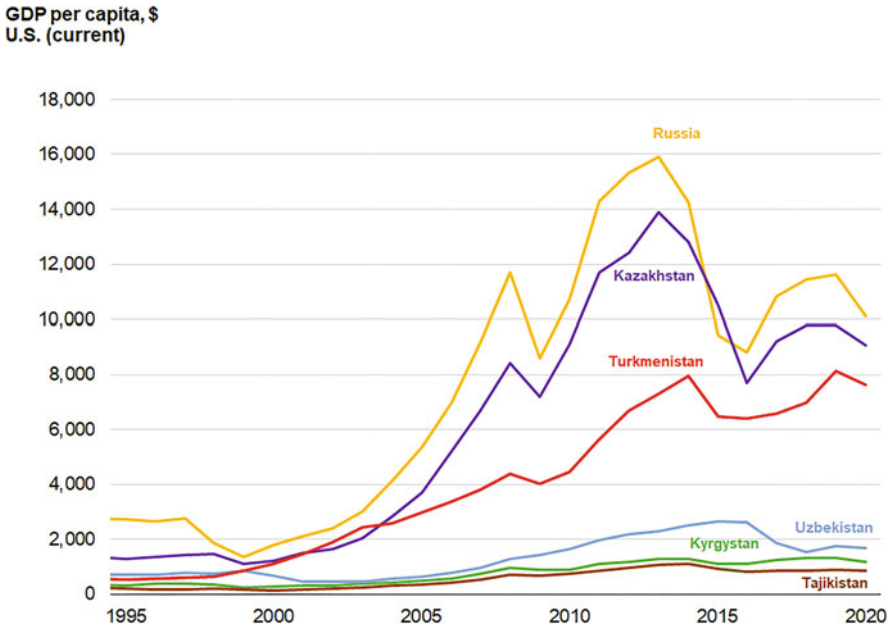


Fig. 3 Comparison GDP per capita of Central Asian countries and Russia 2010–2019. Source: World Bank

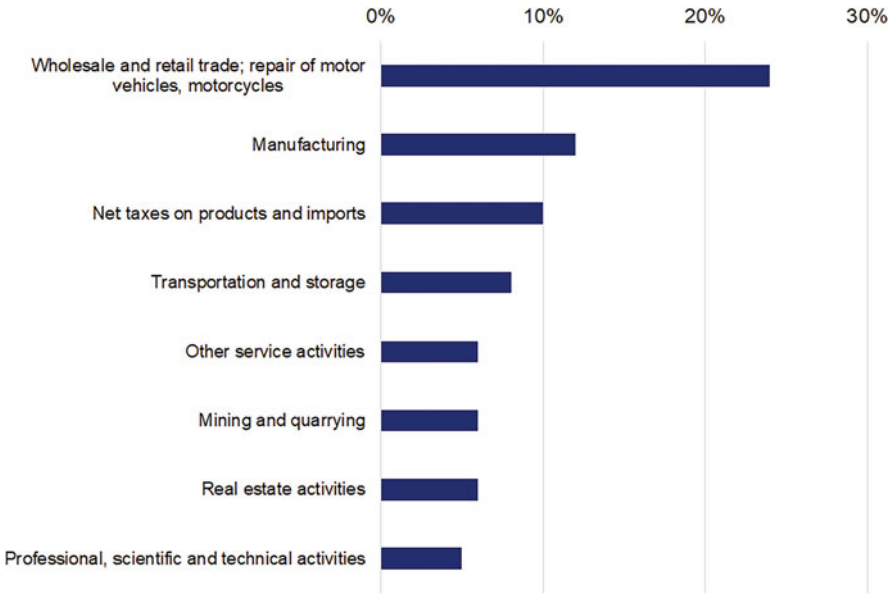


Fig. 4 Sector share of change in Kazakhstan's real GDP, 2010–2019. 100% = KZT 12,647 billion. Source: Bureau of National Statistics Republic of Kazakhstan

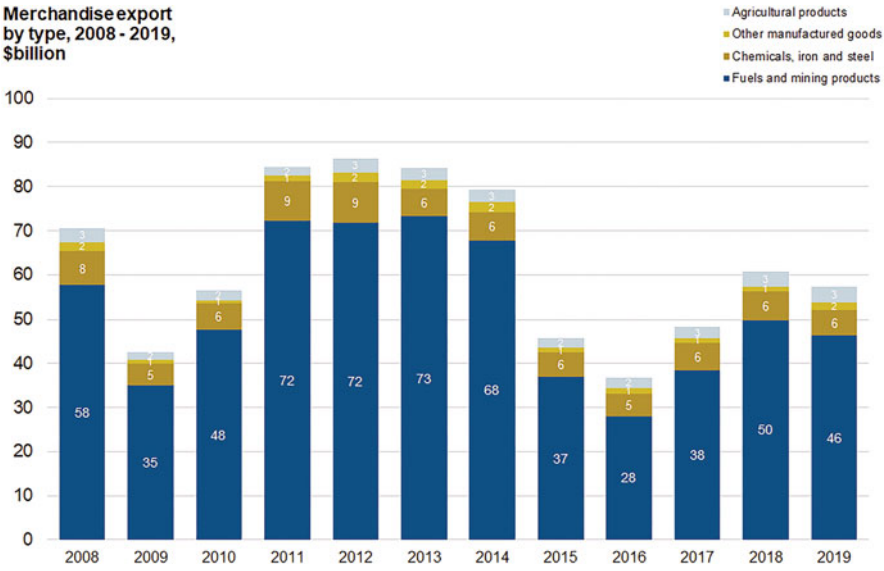


Fig. 5 Kazakhstan's export merchandise mix, 2004–2019. Source: World Trade Organization. Data labels represent dollar amounts

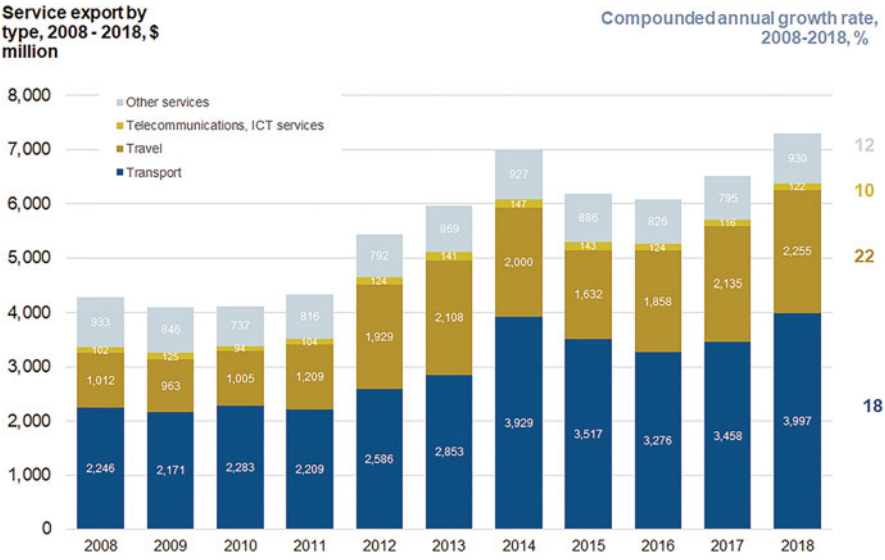


Fig. 6 Kazakhstan's service export mix, 2008–2018. Source: National Bank of Kazakhstan. Data labels represent dollar amounts

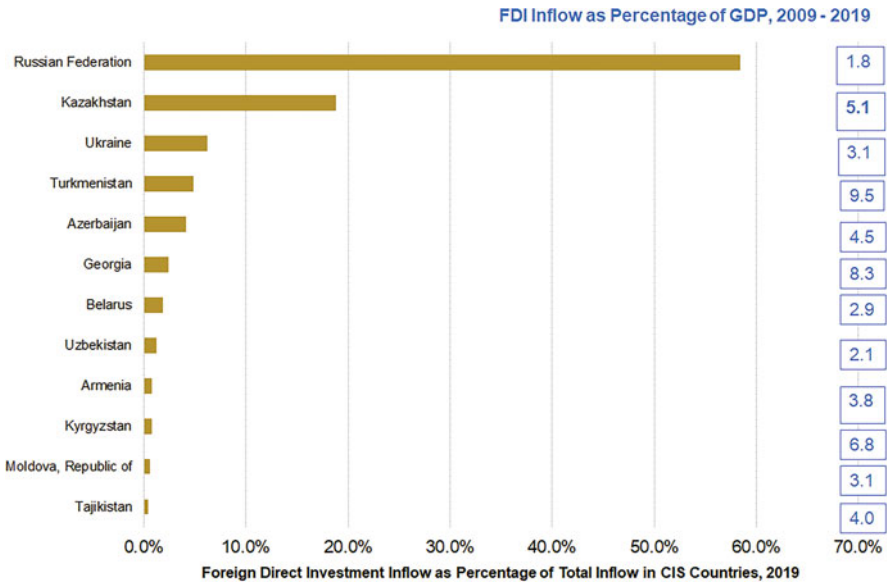


Fig. 7 Share of IFDI stock of countries in the CIS region, 2019. Source: United Nations Conference on Trade and Development

2.3 Trends in Inward and Outward Foreign Direct Investment (FDI)

Kazakhstan is an attractive destination for FDI. In 2019, for instance, Kazakhstan attracted nearly 20% of all inward FDI (IFDI) among the CIS countries.[4] See Fig. 7. (Russia attracted almost 60% of IFDI in the same period.) Kazakhstan's inward FDI intensity, the ratio of inward FDI to GDP in a given year, is also relatively high: IFDI in the period 2009–2019 accounted for an average of 5.1% GDP annually. Only Turkmenistan, Georgia, and Kyrgyzstan—with smaller economies—had higher inward FDI intensity.

Inward FDI into Kazakhstan has been increasing since independence (Fig. 8). Annual inward FDI reached its highest level of approximately $14 billion in 2018, but tapered off at $3 billion in 2019. As of 2019, inward FDI stock in Kazakhstan stood at $149 billion. The top FDI source countries are the Netherlands, the United States, Switzerland, China, France, Russia, and the United Kingdom; they contribute 70% of Kazakhstan's inward FDI (Fig. 9).

[4]The Commonwealth of Independent States (CIS) consists of 12 former USSR republics: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Latvia, Lithuania, and Estonia, though former USSR republics, are not part of the CIS.

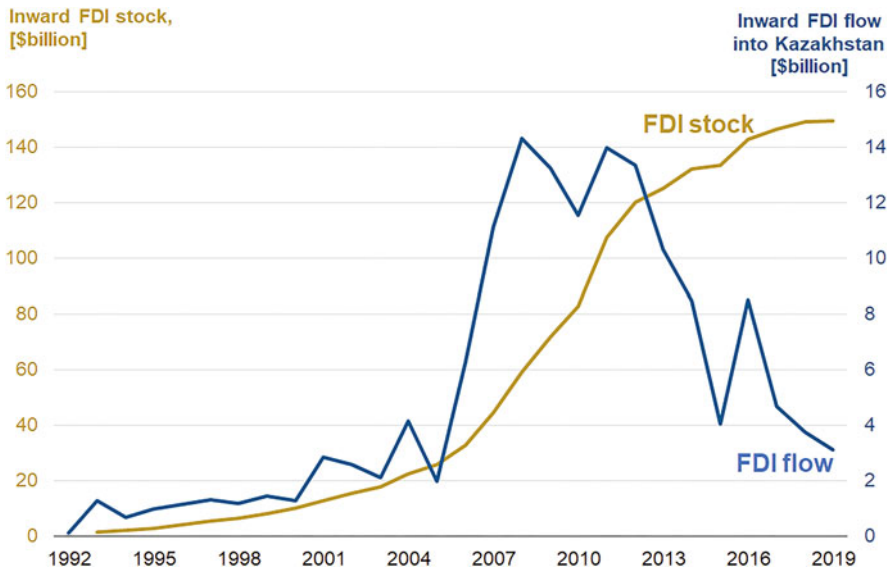


Fig. 8 Inward FDI (IFDI) stock and flow in Kazakhstan, 1993–2019. Source: United Nations Conference on Trade and Development

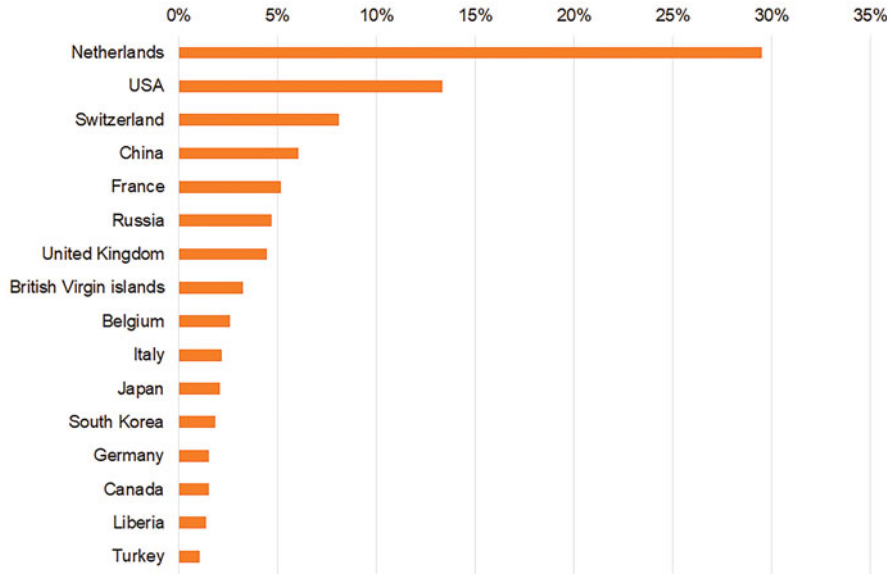


Fig. 9 Top Sources of IFDI stock into Kazakhstan, 2019. 100% = $149 billion. Source: National Bank of Kazakhstan

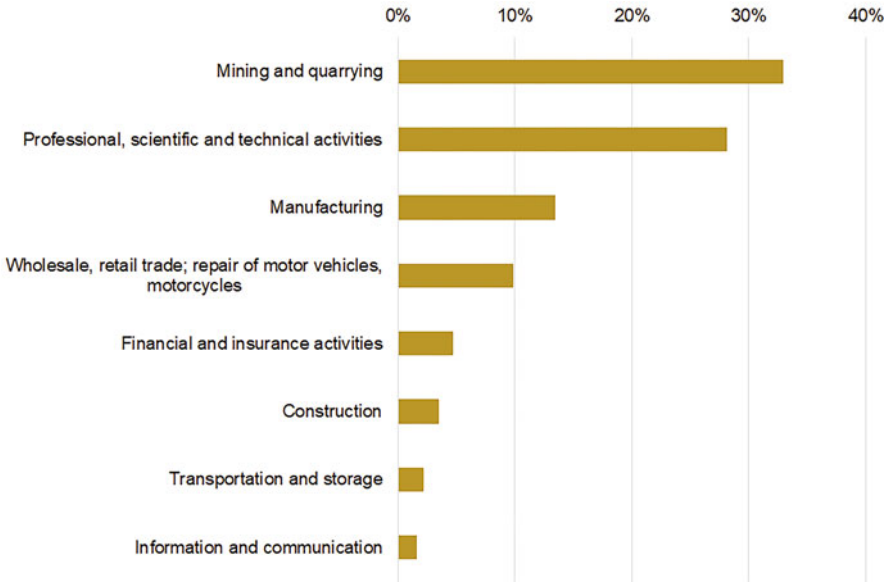


Fig. 10 Sectoral breakdown of IFDI stock in Kazakhstan per sector, 2019.100% = $149 billion. Source: National Bank of Kazakhstan

Given Kazakhstan's abundant natural resources, it is unsurprising that the mining and quarrying sector receives the largest share of inward FDI—33% (Fig. 10); 30% of FDI is channeled to service sectors such as professional and technical services; manufacturing accounts for 13% of FDI, while trade attracts about 10%.

Kazakh firms are not only recipients of FDI; increasingly, they also invest abroad. Figure 11 shows the outward FDI (OFDI) trends of Kazakh firms since the country gained independence from the Soviet Union. The OFDI stock of Kazakh firms rose from virtually zero in 1995 and peaked at $27 billion in 2015. Since 2015, OFDI stock has decreased from the peak to about $16 billion. The top five destinations for outward FDI by Kazakh firms in the period 2005–2020 were the Netherlands (59%), the United Kingdom (9%), the Russian Federation (6%), the Cayman Islands (3%), and Ireland (3%) (National Bank of Kazakhstan, 2021b).

Interestingly, The Netherlands is the top destination and source of OFDI and IFDI respectively. This pattern may indicate round tripping, whereby Kazakh firms invest in Kazakhstan using special investment vehicles domiciled in The Netherlands that take advantage of The Netherlands's tax laws. Though the data is inconclusive, round tripping is consistent with another piece of evidence: the most attractive sector for Kazakh firms investing abroad is "professional, scientific and technical services." This sector comprising firms whose main activities is "head offices, management and consultancy services" accounted for $2.2billion average annual OFDI from Kazakhstan between 2010 and 2020 (See Fig. 12).

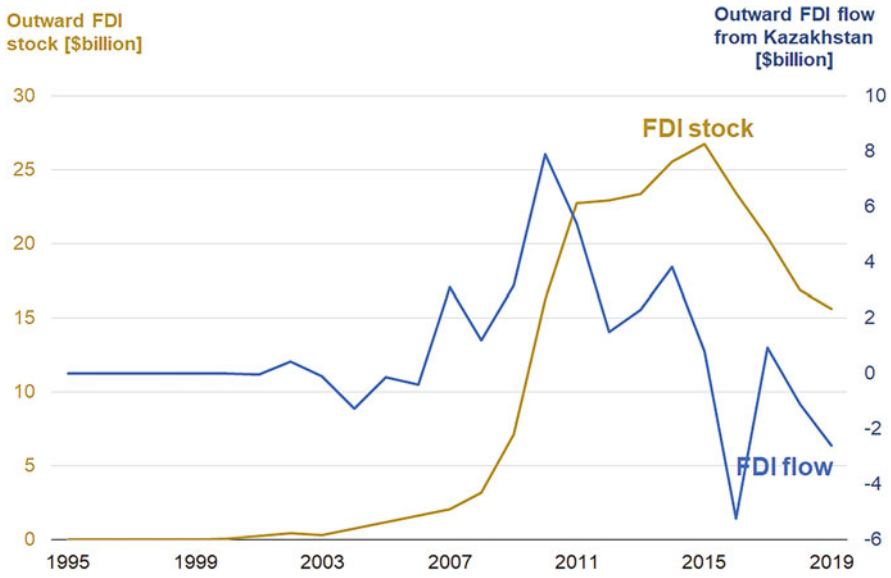


Fig. 11 Outward FDI (OFDI) stock and flow from Kazakhstan, 1995–2019. Source: United Nations Conference on Trade and Development

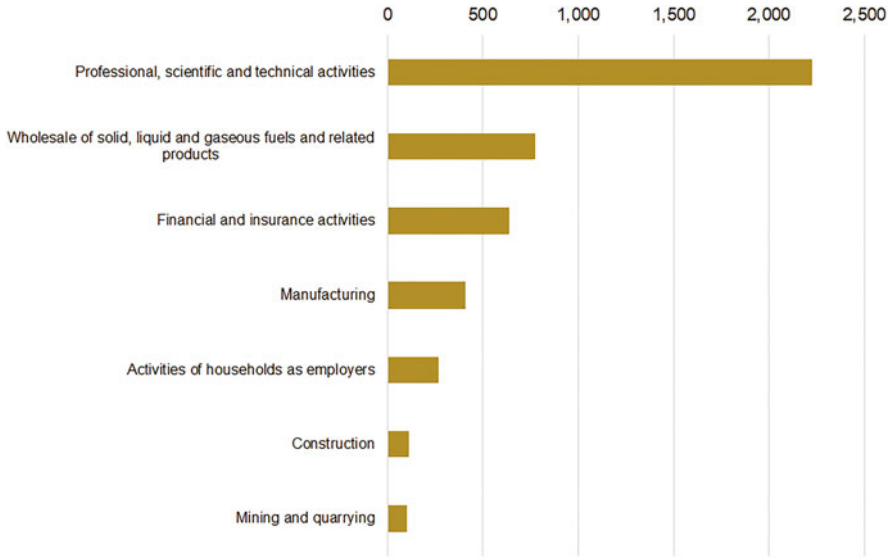


Fig. 12 Average gross annual OFDI per sector from Kazakhstan, 2010–2020, $million. Source: National Bank of Kazakhstan

Kazakhstan has also benefited from its proximity to large emerging markets—China, Russia, and Turkey. As an indication of Kazakhstan's importance to China's global objectives, President Xi Jinping of China announced the Belt and Road Initiative (BRI), an ambitious infrastructure project linking China with Europe, while on a state visit to Kazakhstan in 2013 (Ministry of Foreign Affairs of the People's Republic of China, 2013). Since the announcement, Kazakhstan has received significant Chinese investments in road and rail infrastructure connecting China to Russia and Europe (Shepard, 2016).

2.4 The Business Environment in Kazakhstan

Kazakhstan's business environment is ranked highest among the Central Asian countries. The World Economic Forum (WEF) competitive index, a measure of the "set of institutions, policies and factors that determine the level of productivity" (Schwab, 2019: xiii), compares the business environments of 141 countries. The index (scaled 0–100) is computed from a country's score on (1) the quality of the enabling environment for productivity, institutions, infrastructure, ICT adoption, and macroeconomic stability; (2) human capital, the health and skills of the workforce; (3) size and sophistication of labor markets, product markets, the financial system, and economy; and (4) the quality of the innovation ecosystem reflected in the dynamism and innovation capability of firms. Overall, Kazakhstan ranked 55 in 2019 (Schwab, 2019: 314–317), while Kyrgyzstan and Tajikistan were ranked 96 and 104, respectively.[5]

Another index, the World Bank's annual Ease of Doing Business survey (The World Bank, 2021a), provides a snapshot of countries on ten measures of the ease of doing business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. In 2020, Kazakhstan was ranked 25 (of 190 countries), slightly higher than Russia (28), China (31), and Turkey (33). Uzbekistan, Kyrgyzstan, and Tajikistan were ranked 69, 80, and 106, respectively (see Table 2).

So far, we have traced Kazakhstan's transformation after the collapse of the USSR into a relatively prosperous and attractive economy for FDI. In the next section, we present case studies of three Kazakh firms that have internationalized their operations. We discuss the modes of entry that the companies employed, the firms' ownership structure, their target market, and their internationalization experience to date. Thereafter, we discuss the implications for IB research.

[5] Turkmenistan and Uzbekistan were not featured in 2019 WEF report.

Table 2 Ease of doing business in Central Asian countries compared with selected countries

Economy	United States	Kazakhstan	Russian Federation	China	Turkey	Uzbekistan	Kyrgyz Republic	Tajikistan
Overall ranking	*6*	*25*	*28*	*31*	*33*	*69*	*80*	*106*
Starting a business	55	22	40	27	77	8	42	36
Dealing with construction permits	24	37	26	33	53	132	90	137
Getting electricity	64	67	7	12	41	36	143	163
Registering property	39	24	12	28	27	72	7	77
Getting credit	4	25	25	80	37	67	15	11
Protecting minority investors	36	7	72	28	21	37	128	128
Paying taxes	25	64	58	105	26	69	117	139
Trading across borders	39	105	99	56	44	152	89	141
Enforcing contracts	17	4	21	5	24	22	134	76
Resolving insolvency	2	42	57	51	120	100	78	153

Source: The World Bank

3 Air Astana

Air Astana is Kazakhstan's flagship carrier. The airline, founded in 2001, is owned by the Air Astana Company, a joint venture between the government of Kazakhstan represented by Samruk-Kazyna, the country's national wealth fund, and BAE Systems PLC of the United Kingdom (Air Astana, 2021). Air Astana operates from two hubs: Almaty, Kazakhstan's industrial capital in the south of the country, and Nur-Sultan, the administrative capital in the north. (See Fig. 1b for the location of both cities.) In 2019, Air Astana generated revenues of $899 million and operating profit of $79 million (Air Astana, 2020: 36). In 2020, due to the COVID pandemic, revenue dropped to $400 million, and the company suffered an operating loss of $69 million. As of early 2020, the company employed about 4800 people (Air Astana, 2021). Air Astana's current Board of Directors consists of representatives of Samruk-Kazyna, BAE Systems, independent directors, and the President and CEO Peter Foster (Air Astana, 2021: 9).

3.1 Scope of Operations: To Make or Buy Maintenance Services

Air Astana is widely regarded as the leading airline in Central Asia (Air Astana, 2018). In the 2010s, as the airline developed an network of routes primarily to destinations in the former Soviet Union, Europe, and Asia, senior managers began considering entering the market for aircraft maintenance. At the time, Air Astana's 450-staff engineering and maintenance department provided in-house maintenance service on the company's fleet of aircraft. These services included routine engine changes, landing gear changes, and inspections known in the airline industry as A-checks.

In 2012, with the engineering staff gaining experience in these routine checks, senior managers became more confident that they could perform more complicated maintenance known as C-checks. At the time, Air Astana outsourced C-checks on its fleet, consisting of Boeing B757 and B767; Airbus A319, A320, and A321; and Embraer E190 aircrafts, to maintenance, repair, and overhaul (MRO) facilities in China, Russia, and Portugal (Harbison, 2019). The principal rationale for doing the complex maintenance in-house was to reduce engineering and maintenance costs, which amounted to nearly 15% of Air Astana's operating expenses (Air Astana, 2015: 184–186).[6]

The engineering team at Air Astana proposed to open an MRO facility to perform C-checks if the airline's fleet size reached 20 aircraft. Economic analysis, however, indicated that an in-house MRO operation could not break even at that fleet strength since MRO facilities tend to be asset specific, i.e., they are tailored to a specific

[6] As we write this chapter (November 2021), Air Astana operates a fleet of 34 aircraft consisting of Boeing 767, Airbus A320, Airbus A320neo, Airbus A321, Airbus A321neo, A321neo LR, and Embraer E190-E2 aircrafts (Air Astana, 2021).

aircraft type and are subject to scale economies with inventory and equipment. By 2013–2014, however, Air Astana's fleet had expanded to 30 aircraft. As the company adopted an ambitious strategy to double its fleet size within a decade (Air Astana, 2015: 10), the economics of upgrading the company's MRO capabilities became more attractive.

Air Astana's management decided to center the company's MRO capabilities on the Airbus A320 aircraft because they expected the number of Airbus A320 aircraft within the fleet to grow (Air Astana, 2015). Focusing MRO capability on the Airbus A320 model not only allowed Air Astana's engineering and maintenance staff service the company's growing fleet in-house, but it also enabled Air Astana to target airlines in the region with Airbus planes in their fleet. At the time, there were about 2000 Airbus aircraft in the region (1300 were in China and 500 in Russia and Turkey). Air Astana management hoped that the MRO facilities would attract clients from neighboring countries such as Russia, Tajikistan, and Kyrgyzstan.

Air Astana also had to decide the location of the MRO operation within Kazakhstan. The choice boiled down to Nur-Sultan (Astana) in the north, which is close to Russia, and Almaty in the south, close to China (see Fig. 1). Air Astana maintenance operations in both these cities' airports presented different challenges to an MRO. On one hand, Almaty remained a key hub for Air Astana as 70% of its fleet was stationed in Almaty. Yet, Air Astana's facilities in Almaty, leased from the airport operator, were considered too small for an MRO operation. The airport territory was already congested; it was virtually impossible to build an essential spare part warehouse within the airport. This meant that the warehouse had to be located outside the airport, creating additional customs clearance and security hurdles.

Nur-Sultan's newer airport, on the other hand, offered more flexibility. Air Astana owned the facility at Nur-Sultan airport. Furthermore, the airport's commodious hangar could host two A320 planes or three Embraers or one wide-body Boeing 787 Dreamliner. Thus, Air Astana management decided to establish the MRO at Nur-Sultan in 2015. The MRO facility at Nur-Sultan airport was eventually completed and commissioned in 2018 (Air Astana, 2018; Khaidar, 2018).

3.2 Internationalization: Local Value Addition in Global Value Chain

Air Astana management assumed that the company has two sources of competitive advantage in the MRO business. First, managers hoped to leverage Kazakhstan's location, close to China and Russia, important markets for Airbus, to gain a foothold in those markets. Second, low wage rates in Kazakhstan also reduced the cost of providing MRO services. Engineering staff at Air Astana regularly traveled to China and Europe to learn about maintenance work; in the process, they had learned how to perform those operations themselves. Air Astana's management thus thought the company had a pool of relatively low-wage qualified engineering staff and had no need to hire expensive expatriate personnel to staff its MRO operation.

The company also enjoyed additional advantages that enabled it to develop an internationalization strategy: support from the Kazakh government and international managerial expertise. Senior management comprised expatriate managers who brought managerial capability from the global airline industry to Air Astana. Peter Foster, for instance, the President/CEO since 2005, had 35 years' experience at Cathay Pacific Airways and Royal Brunei Airlines. Unlike in other state-owned enterprises (SOEs) in transition countries, where political patronage plays a major role in strategic decisions (Musacchio et al., 2015), Air Astana management was given the leeway to lead the airline based on commercial rather than political considerations. In addition, the government invested in infrastructure that benefited the airline. Nur-Sultan's airport, for instance, was modernized in preparation for the 2017 Expo. The larger airport and the global exhibition allowed the airline to leverage increased passenger traffic to further build its brand and network.

Nevertheless, Air Astana faced several challenges as it established the MRO operation. These challenges can be classified at the firm, industry, and institutional levels. We elaborate on these.

3.2.1 Firm Level: Capability Gaps

Regardless of support from the Kazakh government and an internationally reputable management team, Air Astana was a relatively new entrant in an industry that prizes operational excellence, safety, and reliability. The principal challenge facing Air Astana was how to gain international credibility and certification for its third-party MRO services. Managers soon discovered that MRO operations required more skilled engineering and technical staff than they had initially thought. There was a paucity in supply of well-trained engineers from the country's only civil aviation academy located in Almaty. Moreover, these engineers were not instructed in the EU's standard of aviation; hence, the few students who graduated from the academy were not qualified to work in MRO operations.

Air Astana managers responded by creating internship and certification programs for engineering students. These, however, ended in failure. The student interns did not like the career prospects in the engineering departments of the airline. As the chief engineer at Air Astana observed, "we had students from top engineering schools interning with us. We took them in the hope that they would want to work with us after graduating; however, they did not want to work with us, they wanted to go directly to offices, become directors, and we understand that."

3.2.2 Industry Dynamics, Competition, and Location Challenges

It is expensive to keep inventories of aircraft spare parts. Thus, most airlines use just-in-time (JIT) purchasing systems to acquire spare parts needed for aircraft maintenance and repair. MROs located in European industrial clusters benefit from being co-located with other MROs in a single market; in case of emergency repairs, parts can be easily transported without custom controls and at low logisitics costs. Doing just-in-time delivery for an MRO operation in Kazakhstan, located far from the major aerospace hubs in Europe and America, involved more complicated logistics. To address this logistical challenge, Air Astana negotiated with its main supplier to

establish a "hot shelf" of parts located in Nur-Sultan, but owned by the supplier (Air Astana was billed when parts are by the airline.)

Air Astana relied principally on European suppliers instead of on Russian suppliers because even though Russia and Kazakhstan belong to a single customs union, European suppliers were able to guarantee speed of delivery, high quality, and competitive prices.

Other challenges for Air Astana's third-party MRO business included competition within the major airline hubs in the region—in Russia, Turkey, and China. All three major aerospace markets had MRO operators that serviced local carriers. Air Astana management could only hope to cater to residual demand from those markets. As the chief engineer at Air Astana remarked, "There are some MROs in Russia, but they are not enough for the demand, and we certainly expect that some of the airlines will fly in and repair their planes in Kazakhstan."

3.2.3 Institutional Friction

The nearest MROs outside Kazakhstan, where Air Astana could secure spare parts at short notice, were located in China and Turkey. However, this meant crew and aircraft had to pass through customs control and pay additional transportation and customs clearance fees, resulting in delayed repairs which, in turn, made the MRO operation uncompetitive. Cumbersome customs legislation in Kazakhstan further complicated managing the supply chain. Air Astana manager complained that spare parts were often stuck with customs agents as the company tried to reach an agreement with the government authorities for speedy processing in Almaty. Since the Nur-Sultan MRO center was completed, Air Astana reported conducting maintenance services for Qatar Airways, Turkish Airlines, and LOT Polish Airlines (Air Astana, 2020: 33) and claimed its MRO facilities service more than 20 third-party airlines (Pozzi, 2021).

In sum, Air Astana, Kazakhstan's flagship carrier, has emerged as an important regional airline. The company has attempted to incorporate itself more fully into global supply chains by entering the market in MRO services. However, the company has struggled to hone the capabilities to serve discerning foreign clients while facing down competition from providers in more established aerospace markets such as China, Russia, and Turkey. Despite enjoying the support of its home country government, Air Astana still suffers from the disadvantages of its location: institutional friction in the form of complex custom clearance procedures and remoteness from global supply chains conspire to reduce the efficiency of the firm's supply chain and increase its transaction costs.

4 BI Holding

Privately held BI Holding is the largest construction company in Kazakhstan (BI Group, 2021). In 2019, the company ranked as the 186th largest construction company by revenue in the world (ENR: Engineering News Record, 2019). In that

year, BI had 5800 employees; it generated 412 billion tenge ($1.1 billion) in revenue with operating profit of 57 billion tenge ($150 million).

BI was founded in 1995 by Aidyn Rakhimbayev, Askhat Omarov, and Bauyrzhan Issabayev shortly before Kazakhstan's government moved the capital to Astana. Sustained by soaring commodity prices in the 2000s, the government financed a construction boom in Astana as buildings and civil infrastructure were erected to befit the capital city. BI began constructing residential apartments for the city's growing population as the capital attracted people seeking employment and social mobility. BI's founders, at the helm of the company, retain executive control: Rakhimbayev is the Chairman of the Board of BI Holding, while Omarov and Issabayev are directors.

4.1 Scope of Operations: Dominating the Domestic Market

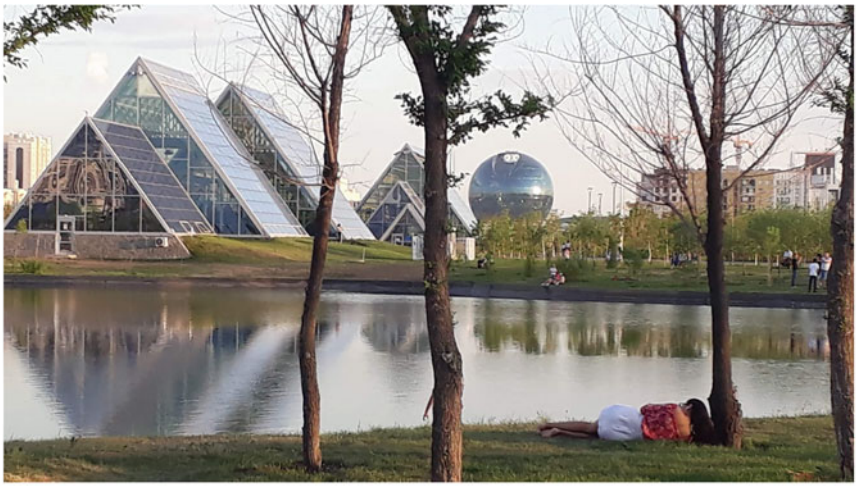
BI companies operate across most segments of Kazakhstan's construction industry. BI Development, the largest BI company by revenue (see Table 3), constructs residential and commercial real estate principally in Nur-Sultan, Atyrau, and Almaty (see Fig. 1 for location of those cities). BI Construction & Engineering focuses on the construction of assets in the civil and industrial segments for municipal governments, oil and gas companies, and manufacturing companies. See Table 3 and Fig. 13.

BI Infra Construction operates in the civil segment, constructing roads and bridges for Kazakhstan's state-owned companies and national infrastructure bodies. In 2013, BI Infra Construction completed roads in northwest Kazakhstan (Fig. 1) that form part of the Western Europe-Western China Transit Corridor, a key link in China's Belt and Road Initiative (Shepard, 2016). BI Property and BI Clients operate residential and commercial real estate, respectively, providing maintenance, repair, and plumbing services to customers in business centers, apartment complexes, and single-family units in Nur-Sultan, Atyrau, and Almaty.

Table 3 Overview of BI companies

	Share of revenue, % (2019)[a]	Profit margin, %	Market share, %
BI Construction & Engineering	33	8	Civil: 13 Industrial: 5
BI Development	51	12	Nur-Sultan: 50 Almaty: 12 Atyrau: 42
BI Infra Construction	14	- 4	9
BI Property	3	2	N/A
BI Clients	–	0	16

Source: Table compiled by authors
[a]Percentages do not add up to 100 due to rounding



Source: BI Group (https://images.app.goo.gl/jwcriaBmri7mjdcf9)

Fig. 13 Civil infrastructure projects constructed by BI in Nur-Sultan (Astana). (Top) Botanical Garden; (Bottom) Peace Wall

4.2 Internationalization: Home Advantages Do Not Transfer Easily

As the company dominated the building segment in Kazakhstan's capital city, it enjoyed at least three advantages. First, BI had significant bargaining power with

suppliers. A BI manager we interviewed put it succinctly, "we [BI] get the best price [in Kazakhstan] from suppliers and subcontractors." Such privileged relationships with suppliers translate into operational efficiency advantage for the company.

Second, through years of experience in the sector in Kazakhstan, BI developed internal project management processes which—coupled with the company's cost advantage with suppliers—allowed it to reliably build structures on time and within budget. This translated to reputational advantage in commercial tender applications where clients highly prized reliability, assurance of quality, and on-time delivery.

Lastly, the company developed relationships with municipal authorities that allowed it to navigate the formidable bureaucratic process required to acquire construction inputs, such as prime land in Nur-Sultan and municipal services, such as electricity and heating, required to develop real estate.

Realizing that BI enjoyed a commanding share of the home market, Rakhimbayev and his leadership team decided to pursue projects in foreign markets in 2016. "We were now getting too big for one country. So, we decided to go out of Kazakhstan," one manager recalled. We summarize BI's internationalization experience to date: in Georgia, Russia, Saudi Arabia, and Uzbekistan.

4.2.1 Georgia

In 2017, the government of Georgia announced an open tender for construction of highways in the country. Georgia, with a population of 3.7 million, was considered an attractive market because it has a shared history with Kazakhstan as part of the USSR and a relatively transparent business and political culture. Said one BI manager involved in the tender process, "Georgia is a very open country—they have European Union flags everywhere and so on; they feel like they are a part of Europe." BI's leaders reasoned that if the company could compete in Georgia, then it had a shot at the European Union's large, mature infrastructure markets.

The tender attracted bids from European, Indian, Chinese, and Turkish construction companies. When the results of the bid were announced in late 2017, the top seven bids were from Chinese companies. BI could not compete with large Chinese infrastructure companies. "So, you have this open country, but you have this Chinese competition. . .we realized this [price competition in a foreign market] was not for us."

4.2.2 Russia

Entering Russia's construction market seemed like a "natural" choice for BI in 2019 due to strong historical and economic ties between Kazakhstan and Russia. BI's leaders discovered quickly, however, that BI faced several disadvantages in Russia. First, unlike in Kazakhstan, BI enjoyed little leverage with suppliers in Russia. Local subcontractors tended to offer high prices to foreign contractors. A manager familiar with BI's efforts in Russia commented: "If you are very active on the [Russian] market they give you a discount. If not. . .they charge a higher price meaning your price will be higher than that of your competitors."

Second, the importance that Russian public sector clients placed on relationships set insurmountable barriers to new entrants. Another manager recalled BI's

experience bidding for a road construction project in West Russia, "The personal relations [with government clients] are very important. If you go to government projects you need references. . .they will ask you, 'Have you completed three projects like this in Russia?'. . .you may be a perfect road constructor in Kazakhstan but what are you going to do when you come to Russia?"

Third, payment terms in construction contracts put onerous obligations on contractors, but awarded Russian clients many rights. This increased the risks for BI, with lower institutional knowledge and local networks. "If you are foreigner, you cannot sign this contract. . .the contractual terms are not acceptable." BI leaders eventually pulled out the company of the Russian market.

4.2.3 Saudi Arabia

In 2019, BI was invited to bid for a lucrative infrastructure project in Saudi Arabia. BI's leaders saw the tender as an opportunity to win a major project (>$100 million value) that would set BI on a course to operating in major construction markets. As BI's engineers prepared the tender document, however, they encountered the limitations of their home country's banking system. In order to submit tenders, bidding contractors in Saudi Arabia were required to pay a hefty bid bond. The bond is essentially a financial guarantee that the bidding company will construct the asset if they win the tender. If the company cannot construct the asset after winning the tender, then they forfeit the bond. No Kazakh bank could offer the guarantee to the Saudi client; there were no official relations between Saudi and Kazakh banks. BI Group had to borrow the money to pay the bid bond. Given the high cost of capital in Kazakhstan (The Business Year, 2017), it was unlikely that the Saudi project would generate the anticipated margins to support such a high interest loan.

There were ways to reduce the bid cost and improve margins. BI's leaders could have, for instance, hired engineers in Saudi Arabia instead of bringing them from Kazakhstan. However, cost reduction was not Rakhimbayev's only concern: it was not clear to BI's leaders what value they would have added to the client by simply reducing cost:

[I]f you bring a Kazakh engineer to Saudi Arabia it is very expensive. . .The Kazakh engineer is 3–4 times more expensive than an Egyptian engineer. . .You may hire Egyptian engineers in Saudi Arabia, but what then your contribution to this project? Is it just the name BI Group with the same structure as a local company? (Manager #1, BI)

Like they did in Russia, Rakhimbayev and his leadership team pulled the plug on the Saudi Arabian internationalization effort.

4.2.4 Uzbekistan

Bordering Kazakhstan in the south (Fig. 1), Uzbekistan is more populous, but considerably poorer than Kazakhstan (see Table 1). Though Uzbekistan and Kazakhstan share similar cultures, languages and history, Uzbekistan—under its first President Islam Karimov—was relatively closed to foreign investment. Since Karimov's death in 2016, however, the country has become more open to foreign investment (Nishanov, 2017).

In 2017, BI created a joint venture with an Uzbek company to construct commercial and residential real estate in the country's capital, Tashkent. Though projects in Uzbekistan were lower value than construction projects in Russia and Saudi Arabia, BI's leaders concluded that Tashkent had an underserved residential real estate market; they hoped to draw on BI capabilities in building residential apartments in Kazakhstan to provide housing to customers in Tashkent, a city with a population of nearly three million people:

> We understand that people [in Tashkent] need and look for apartments that give value for money. . .When I have been to Uzbekistan—my first time was maybe two years ago—I think it [Tashkent] really reminds me of Astana [Nur-Sultan] ten years ago. We think it is a great opportunity for us to expand our market and our brand. (Manager #2, BI)

These efforts appear to be more successful. In early 2020, BI's joint venture (JV) in Uzbekistan won a tender for the construction of Tashkent's International School. Also, in March 2020, BI's joint venture in Uzbekistan invested $33 million in an 850-unit business segment residential property in Tashkent. Of the 850 units, 60 had been pre-sold at the time of writing (UZ Daily, 2020).

In sum then, BI is a privately owned mid-size construction firm dominant in its home market in Kazakhstan. It enjoys cost advantages, reputation advantages, and local institutional knowledge. In order to seek new markets, BI has in recent years tried expanding operations to countries in the former Soviet Union, but has met with limited success in those ventures.

5 KazMunayGas (KMG)

KazMunayGas (KMG) is Kazakhstan's national oil and gas company. The company, formed in February 2002, is currently owned by two state-controlled entities: Kazakhstan's sovereign wealth fund, Samruk-Kazyna (90.42% equity stake), and the central bank, the National Bank of Kazakhstan (9.58%). KMG was formed to control the Kazakh government's interests in the country's oil and gas sector (Kaiser & Pulsipher, 2007). After independence from the Soviet Union, Kazakhstan's government had offered generous contractual terms to foreign oil and gas companies in order to attract new sources of expertise and investment into the country's declining oil industry. KMG's 2002 formation was widely seen as a way for the government to renegotiate its unfavorable position in previously signed agreements (Kaiser & Pulsipher, 2007).

5.1 Scope of Operations

KMG operates in Kazakhstan and Romania. In 2019, KMG generated approximately revenue $18 billion and EBITDA $5 billion and had about 71,000 employees (KazMunayGas, 2019: 74–77). As we write this chapter, the company's CEO and

head of the management board is Aidarbayev Serikovich, an oil industry veteran and former mayor of Mangistau, west Kazakhstan (see Fig. 1). KMG's Board of Directors consists of three foreign directors (American, Australian, and British), three representatives of Samruk-Kazyna, and the CEO. The Chairman of the Board is Chris Walton, an Australian (KazMunayGas, 2021a).

KMG plays a pervasive role in Kazakhstan's oil and gas sector (Kaiser & Pulsipher, 2007). The company is a vertically integrated oil and gas company, operating in every stage of the industry value chain—upstream, midstream, and downstream.

The upstream segment of the industry consists of firms involved in the exploration and production of crude hydrocarbons. In this segment, KMG's footprint includes joint ventures—with foreign oil and gas majors—in companies that operate Kazakhstan's three giant oilfields, Tengiz, Karachaganak, and Kashagan, located in western and northwest of the country. KMG also operates through wholly owned subsidiaries or joint ventures smaller assets within Kazakhstan (KazMunayGas, 2019: 44–45). Table 4 shows KMG's assets in Kazakhstan's upstream oil and gas industry.

In the midstream segment of the value chain, i.e., firms that transport and distribute hydrocarbons, KMG is the monopoly operator within Kazakhstan.

Table 4 KMG assets in Kazakhstan's upstream oil and gas industry

Field	Operating company	Shareholders (country of origin)	Equity stake, %
Tengiz	Tengizchevroil (TCO)	KMG (Kazakhstan)	20
		Chevron (USA)	50
		ExxonMobil	25
		LukArco	5
Karachaganak	Karachaganak Petroleum Operating	KMG (Kazakhstan)	10
		Royal Dutch Shell (Netherlands)	29.5
		ENI (Italy)	29.5
		Lukoil (Russia)	18
		Chevron (USA)	13.5
Kashagan	North Caspian Operating Company (NCOC)	KMG (Kazakhstan)	16.88
		ENI (Italy)	16.81
		ExxonMobil (USA)	16.81
		Total (France)	16.81
		Royal Dutch Shell (Netherlands)	16.81
		China National Petroleum Company (China)	8.33
		Inpex (Japan)	7.56

Sources: North Caspian Operating Company (NCOC), KazMunayGas Annual Report 2019

KMG's pipelines transport crude hydrocarbons from oilfields in Kazakhstan to Russia and to western China (see Fig. 1). The company also owns a 20.75% stake in the multinational Caspian Pipeline Consortium, which operates a 1500 km pipeline transporting crude oil from the giant oilfields in northwest Kazakhstan (Fig. 1) to the Black Sea for onward export to Europe (KazMunayGas, 2019).

In the downstream segment, wherein crude oil is refined and converted into products such as gasoline, diesel, and petrochemicals, KMG operates through wholly owned subsidiaries and joint ventures three refineries across Kazakhstan. KMG, through its subsidiary KMG International, owns and operates two refineries in Romania.

5.2 Internationalization: Acquisition of Rompetrol Group

In August 2007, KMG acquired in a private auction 75% stake in The Rompetrol Group (TRG), a Romanian former state-owned oil and gas company, for $2.7 billion (KazMunayGas International, 2007). TRG had been privatized in 1993 during the wave of market reforms that were introduced at the end of communism in Romania. At the time of KMG's acquisition, TRG was active in refining, marketing, and trading of oil as well as in providing engineering services to the oil industry (KazMunayGas, 2008; Kroes, 2007). KMG subsequently acquired the remaining 25% of TRG's shares for an undisclosed sum in 2009 (Reuters, 2009). As a result of the acquisition, KMG obtained controlling interest in TRG's key assets: the Petromidia Refinery, the largest refinery in Romania located on the Black Sea coast; the Vega Refinery, the only naphtha-producing refinery in Central and Eastern Europe; and 902 retail stations across Romania, France, Spain, Ukraine, Albania, Georgia, and Moldova (KazMunayGas, 2008: 26–27, 2019).

KMG's acquisition of TRG appears to be a case of market-seeking FDI wherein a corporation "may consider it necessary, as part of its global production and marketing strategy, to have a physical presence in the leading markets served by its competitors" (Dunning & Lundan, 2008: 71). In the mid-2000s, as oil prices soared and the giant Kashagan oilfield was expected onstream, KMG needed to transport oil to European and Chinese markets without relying on Russian pipelines. The company built in 2005 the Kazakhstan-China pipeline, and the Petromidia Refinery was central to the diversification strategy: KMG exports its crude oil to Europe and the Petromidia Refinery through the Black Sea ports.

Furthermore, KMG wanted enter the downstream segment of the industry. A foothold in Romania, a high-growth emerging economy, which joined the European Union (EU) in January 2007, enabled KMG to access the EU's large single market, particularly countries in Central and Eastern Europe. Following the acquisition, KMG's erstwhile CEO stated, "The acquisition of a majority stake in TRG provides us with a footprint in important downstream markets in Europe, including France, Romania, Moldova and Bulgaria, as well as the ability to utilize TRG as a platform for future expansion. . .in the high-growth markets of the Black Sea, Balkans and Mediterranean regions" (KazMunayGas International, 2007). KMG later justified

the acquisition as way to become a "vertically integrated company of the international level, implementing both exploration, and oil refining, relying on TRG's experience on the European market of oil products" (KazMunayGas, 2008: 27).

After KMG acquired 100% of TRG shares in 2009, TRG was renamed KMG International. However, KMG did not change the brand: all filling stations were still operated under the Rompetrol brand (Rompetrol, 2021). KMG International operates 284 filling stations, and 779 other points of sale across Romania operate in the retail sector in Bulgaria (58 fuel stations, 1 fuel depot), Moldova (95 stations with 73 affiliated shops and 2 fuel depots), and Georgia (85 filling stations, 2 fuel depots) (KazMunayGas, 2021b: 75). According to KMG's consolidated financial statements, KMG's Romanian subsidiary contributed 4.2% of the company's EBITDA (KazMunayGas, 2021b: 76).

KMG's Board of Directors manages KMG International. The Board approves TRG's business plans and budgets and decides on acquisitions and divestitures. At the operational level, senior staff from KMG in Kazakhstan are deputized to work at the Romanian subsidiary. About 50% of the senior management is from KMG Kazakhstan, while at the lower technical levels, that percentage is around 1%. There is indication of knowledge transfer between the Romanian subsidiary and KMG's subsidiaries in Kazakhstan. Rompetrol subsidiary's refineries are considered to be the best performing among KMG's refineries. As such, other KMG refineries benefit from the sharing of operational knowledge.

KMG's market-seeking acquisition of TRG's has faced political scrutiny within Romania. In April 2016, the Prosecutor's Office of Romania opened an investigation of organized crime involving 14 KMG employees. Shortly thereafter, the Romanian government froze KMG's Petromidia Refinery asset alleging irregularities in how Rompetrol had been privatized in the 1990s. According to the Romanian government, TRG's previous owners had a tax liability of $170 million which the government wanted to claim from KMG. KMG executives in Romania, however, believed that the move presaged an intention to nationalize TRG's refineries. They wanted to pay the debt through a combination of cash and shares, whereas Romania's government wanted it in cash. After protracted negotiations, both parties agreed to a payment arrangement, approved by Romania's parliament: in 2018, a Kazakhstan-Romanian investment fund was founded to channel up to $1 billion investment into Romania over a 7-year period (KazMunayGas, 2018). Charges were eventually dismissed in 2019 (KazMunayGas, 2019, 2021b).

6 Discussion

6.1 Internationalization of Kazakh Firms: Motives, Location Choice, and Entry Modes

The three internationalizing Kazakh firms we presented vary in ownership from private to state-owned and in the scale of internationalization from being fully domestic to having international operations.

6.1.1 Motives for Internationalization

Kazakh firms are newcomers to outward internationalization. However, their motives for internationalization are in line with established literature (Dunning & Lundan, 2008: 67–74): market-seeking and strategic asset-seeking. In seeking markets abroad, Kazakh firms such as BI Holding used FDI as a "springboard" to escape a significant domestic market constraint, the small size of their home market (Luo & Tung, 2007).

Yet, these motives are not mutually exclusive; capability development, as well as market-seeking motives, feature prominently in the internationalization decisions of the firms. For instance, as KMG sought access to the downstream sector of the oil industry in Central and Eastern Europe, it learned how to compete in a sophisticated industry sector. Similarly, BI's leaders hoped that by operating in more developed markets, the company would develop capabilities to operate in more sophisticated, lucrative segments of the construction industry outside Kazakhstan. In Air Astana's case, the company's internationalization efforts centered on attracting international clients (from Turkey, China, and Russia) incorporating airline infrastructure into a global value chain by setting up in Kazakhstan value-added activities (airplane maintenance and repair), previously performed in more developed countries.

6.1.2 Location Choice

The Netherlands accounts for the majority (59%) of OFDI from Kazakhstan. Kazakh firms may be taking advantage of the Netherlands' tax laws to set up investment vehicles through which FDI is redirected to other countries. Russia accounts for 6% of OFDI from Kazakhstan. It is fair to assume that unlike FDI directed to the Netherlands, OFDI from Kazakhstan to Russia is intended to take substantive control of firms which add value in Russia itself. If so, then Kazakh firms tend to substantively invest in markets like Russia with similar cultural and institutional environments (Peng et al., 2009) where they may have enjoy the advantage of being able to navigate the institutional settings better than firms from dissimilar institutional backgrounds (Cuervo-Cazurra & Genc, 2008).

6.1.3 Entry Modes of Kazakh Firms

We observe two entry modes among the cases: wholly owned acquisitions (KMG) and joint ventures (BI Holding, Air Astana). KMG's reliance on wholly owned subsidiaries suggests an emphasis on control, while BI and Air Astana's entry modes suggest risk aversion (Peng & Meyer, 2016: 346–352).[7] These entry modes may reflect the Kazakh firms' advantages and their industry peculiarities.

KMG is a state-owned cash-rich firm with access to a valuable resources (crude hydrocarbons); it primarily emphasized equity control and organic growth in its market-seeking acquisitions. Furthermore, despite the complexity of the oil and gas industry, the downstream oil and gas industry involves essentially the production

[7] During interviews, BI managers clearly expressed preference for joint ventures because it enabled BI to understand the "rules of the game" in the local market by learning from a local partner.

and marketing of standardized products, such as fuels and petrochemicals. The industry supply chain is global: refining companies sell these standardized products on global markets ultimately to downstream oil and gas marketing firms. Firms compete in this segment of the industry chain by "building cost advantages through the realization of economies of scale" (Bartlett & Ghoshal, 1998: 18). As in the retail sector, purchasing decisions are made by heterogeneous, dispersed customers; however, regulatory approval for refineries, for instance, tends to be concentrated at the national level in host countries. KMG could leverage access to its high-value resource in running its Romanian refineries and sell standardized refined products, but had only to deal with national regulators in Romania following their acquisition of TRG. Hence, the company could afford a non-collaborative entry mode, which allowed control without sacrificing learning about the host countries' market.

BI Holding, on the other hand, is a mid-size firm that operates in an industry notorious for endemic corruption and rent-seeking (Chan & Owusu, 2017). Approvals for permits and purchasing decisions are typically opaque; they are made at the discretion of varied local government and institutional stakeholders. Moreover, supply chains in the construction industry, especially in the civil and building segments, are decidedly local: constructio companies depend on preferential relationships with key local suppliers. Put simply, competing in this industry implies that a foreign firm be locally embedded. Unsurprisingly, then BI Group emphasized acquisitive growth instead of equity control in its international forays.

6.2 Central Asia: Opportunities for Advancing IB Research

Drawing on the case studies and the IB literature, we argue that Central Asia presents at least four broad opportunities for advancing IB research. The first concerns the impact of geopolitical risk on how MNEs navigate their business environment. The five Central Asian countries—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan—are sandwiched between two regional powers, Russia and China, and are culturally proximate to another emerging regional power, Turkey.[8] (Kazakhstan shares a border with Russia and China, the region's main trading partners. See Fig. 1.) Exogenous political shocks involving Central Asia's powerful neighbors may reverberate across the region's business environment since, a foreign MNEs operating in such situations are not "hermetically sealed from the realpolitik of international relations" (Phan, 2019: 1). For instance, in 2014, when the United States and the European Union (EU) imposed sanctions on Russia following the Crimean crisis (Åslund & Snegovaya, 2021), Kazakhstan's currency, the tenge, depreciated significantly following the depreciation of the Russian ruble. For Kazakhstan, a country dependent on oil and gas exports to fund government

[8]The official languages of Kazakhstan (Kazakh), Kyrgyzstan (Kyrgyz), Uzbekistan (Uzbek), and Turkmenistan (Turkmen) are mutually intelligible and belong to the same family of languages (Turkic) as Turkish. Tajik, the official language of Tajikistan, is a Persian language.

expenditure, such geopolitical risk threatens inward FDI into that sector. More recently, Western-led sanctions on Russia following Russia's February 2022 invasion of Ukraine significantly impacted the operations of MNEs subsidiaries in Kazakhstan by disrupting supply chains and MNE's ability to raise funds. For instance, managers at a subsidiary of a Western MNE in Kazakhstan have prepared detailed plans for evacuating their Kazakh operations; one manager of a Kazakh MNE that issues bonds on the London Stock Exchange (LSE) complained to us that the sanctions on Russia have increased his company's cost of capital: "No one [in London] even wants to touch us because they are afraid that we're connected to Russia." Yet, the IB literature lacks supranational-level studies evaluating the impact of geopolitical discontinuities on MNE behaviors and policies (Sun et al., 2021). Central Asia, due to its geographical location and susceptibility to exogenous shocks involving its powerful neighbors, is fertile ground for studying how MNEs evaluate and address geopolitical risk affecting their host country business environment and their business operations.

The second opportunity for advancing IB research, closely related to the first, is the importance of nonmarket strategies (NMS) to an MNE's overall business policy. Post-Soviet Central Asia has emerged as an important arena for great power politics (Cooley, 2012: 1–13; Pomfret, 1995: 7–8). China's Belt and Road Initiative, an ambitious geopolitical and economic project consisting of networks of overland transportation, pipeline, and power grids across Eurasia, is backed by "substantial [Chinese] financial as well as political firepower" (Nordin & Weissmann, 2018: 231); it envisions Central Asia, especially Kazakhstan, as critical to its achievement. Furthermore, China maintains an interest in Kazakhstan due to the need to maintain security on its Western border (Cooley, 2012: 6–7); Russia, the former imperial power in Central Asia, keen to maintain regional primacy, sponsors the Eurasian Economic Union (EEU) bloc to promote trade with Central Asian countries (Cooley, 2012: 59–61); and the United States, a power from further afield, maintains an interest in the region due to its need to stabilize adjacent regions, such as Afghanistan (Cooley, 2012: 6–7).

Competition between regional powers, Russia and China, and the United States, as well as interest from other powers such as the EU and Turkey, means that local Central Asian elites often struggle to protect national sovereignty without becoming client states to the great powers (Rachel et al., 2020). Nevertheless, as Alexander Cooley, a noted political scientist, observes, "Central Asian states are not passive pawns in the strategic maneuverings of the great powers, but important actors in their own right" (Cooley, 2012: 8). Since independence from the Soviet Union in the 1990s, Central Asian governments have played a complex balancing act to secure FDI from Western, Russian, and Chinese firms into strategic industries, such as oil and gas, while navigating the diverging interests of the great powers. The Kazakh government, for instance, seeking to reduce the country's dependence on Russian oil export pipelines (Pomfret, 1995: 134), exploited China's growing desire for energy security in the last two decades (Cooley, 2012: 90–93). Working through KazMunayGas, and China National Oil and Gas Exploration and Development Corporation (CNODC), the Kazakh government commissioned, in 2005, pipelines

carrying oil from the Caspian Sea in Western Kazakhstan directly to China, bypassing Russia.

In the same vein, the Kazakh government has sought to maintain interest from Russia, China, as well as Western countries (Rachel et al., 2020), by balancing the equity stake of MNEs from those countries in its three giant oilfields (see Table 4). The implication then is that in Central Asia, MNEs' nonmarket strategies (NMS), defined as the pattern of actions taken by the MNE to "improve its performance by managing the institutional or societal context of economic competition" (Mellahi et al., 2016: 144), are likely to dominate their market-based strategies, especially in politically salient industries.

Bargaining models are an important research stream within the IB literature that examines MNE's nonmarket strategies (Ramamurti, 2001; Sun et al., 2021). Ramamurti's (2001) influential two-tier bargaining model, rooted in the experiences of developed country MNEs (DMNEs) as they channeled FDI into developing countries in the 1990s, depicts MNE-host country relations as the outcome of bargaining processes that play out at two levels: first, bargaining between host and home country governments either bilaterally or through multilateral institutions and then, bargaining between the DMNE and the developing country host government, the outcome of which depended on the respective strengths and weaknesses of the parties. However, the model downplays the interactions between DMNEs and their home country governments (Li et al., 2013). Central Asia offers an opportunity to empirically test those interactions ignored in the two-tier model.

Given the region's intrinsic economic significance (large deposits of minerals, oil, and gas in Kazakhstan and Turkmenistan) and the security objectives of the great powers, what role do MNEs' respective home country governments play in facilitating FDI from their countries to the region? How does the salience of the MNEs' industry sector impact the role of respective home country governments? How is the two-tier model, originally proposed by Ramamurti (2001) and extended by Li et al. (2013) to explain Chinese FDI into Africa's natural resource sectors, modified in a region where there is open geopolitical competition between MNEs' home countries?

MNEs' nonmarket strategies in a particular host country are influenced not only by the national objectives of their home (great power) country governments (Phan, 2019) but also by the exigencies of navigating interests of local Central Asian elite who control access to profitable market opportunities. These business elites, with close ties to the state, control traditionally important industries, such as telecommunications, electricity, banking, and mining, as well as less obviously strategic industries such as retail. For instance, Samruk-Kazyna, Kazakhstan's national wealth fund, is a holding company wholly owned by the Kazakh government; it controls various state-owned subsidiaries—including Air Astana and KazMunayGas—whose assets amounted to 57% of the country's GDP in 2010 (Organization for Economic Cooperation and Development, 2013: 66). A foreign MNE operating in Kazakhstan is likely to encounter Samruk-Kazyna's commercial and non-commercial interests. Thus, to compete successfully in Central Asia,

foreign MNEs need to understand the local political/power equations and adjust their nonmarket strategies accordingly.

IB research suggests that the ability of an MNE subsidiary to successfully build cooperative relationships with pivotal political actors in places such as Central Asia characterized by heightened rent-seeking rests on firm-specific nonmarket routines (Doh et al., 2012; Frynas et al., 2006; Sun et al., 2010) honed in the home country (Holburn & Zelner, 2010). Central Asia offers the opportunity to advance understanding of NMS by examining not only the firm- and institutional-level antecedents of NMS but also the individual (cognitive) and network (relational) antecedents of an NMS' nonmarket strategies, a relatively unexamined approach to nonmarket strategy within MNEs (Sun et al., 2021). It may be, for instance, that regardless of the prior internationalization experience of the MNE, Western subsidiary managers—with ultimate decision-making authority in the host country—have different cognitive maps of their business environments and the role of the firm than Russian or Chinese managers; this, in turn, may influence their ability to craft cooperative relationships with influential local political actors. It may also be that diversity of the top management team (TMT) of the subsidiary influences the firm's attention and choice of political alliances in its nonmarket strategy.

Nonmarket strategies (NMS) are vital to the success not only of foreign MNEs operating in Central Asian host countries but also of privately held Central Asian firms internationalizing abroad. Theory suggests that firms internationalize to exploit firm-specific advantages in foreign markets (Cuervo-Cazurra & Genc, 2008), to escape home country institutional and market constraints (Dunning & Lundan, 2008), or to acquire more sophisticated capabilities that they can deploy in their home markets (Cuervo-Cazurra et al., 2018; Luo & Tung, 2007). Unlike firms from larger emerging economies such as China, Brazil, Russia, and Turkey, which enjoy market advantages, such as cost competitiveness, or possess intangible assets such as brands and operational expertise, it is not clear what firm-specific advantages Kazakh firms, for instance, have to exploit in international markets. The OFDI activities of Kazakh firms may thus present an opportunity to study the role of nonmarket or political action in firms' internationalization strategies as leading Kazakh firms depend—formally and informally—on state support. Managers, for instance, whom we interviewed hoped that their firms would get official government support in guaranteeing loans to help their internationalization efforts. Yet, the Kazakh state, unlike the Chinese state (Shepard, 2016) or the Korean state, does not have a clear market-driven (or geopolitical) internationalization agenda. Though many state-owned firms dominate sectors such as banking, we are not aware of designated national champions that are expected to internationalize in line with Kazakhstan's industrial policy. How then do state actors decide which firms' internationalization efforts will receive support? How do private firms become incorporated ab initio into global value chains such China's BRI as part of their OFDI efforts?

Third, Central Asia offers opportunities to study the dynamics of internationalization of state-owned enterprises (SOEs). Large Kazakh firms, such as Air Astana and KMG, are state-owned. The burgeoning stream of research examining the

internationalization of SOEs suggests that state ownership in firms influences the location, type, and levels of FDI of SOEs (Cuervo-Cazurra et al., 2014; Kalasin et al., 2020; Wang et al., 2012). This body of work, which focuses on large emerging economies such as China (Buckley et al., 2007; Cuervo-Cazurra et al., 2014; Kalasin et al., 2020), usually assumes that SOEs are clients of or respond to the actions of a unitary state. However, state actors in many emerging countries are not unitary; they may exist at various levels such as central and local governments and pursue distinct internationalization agendas (Wang et al., 2012).

In Central Asian countries, state actors can be distinguished not only across formal government affiliation levels—central versus local—but also across informal ethnic or clan affiliation, which pre-date and exist simultaneously with the modern state (Collins, 2006; Minbaeva et al., 2022). Central Asia thus offers the opportunity to examine the influence of informal ethnic networks, independent of formal government affiliation, on the internationalization strategies of SOEs. In the process, Central Asia may enable scholars to obtain a disaggregated understanding of the impact of formal versus informal affiliation of SOEs' key decision-makers on the firms' FDI location, level, and type of FDI.

Lastly, Central Asia could be fertile ground for research examining conditions under which developed country MNEs (DMNEs) are more likely than emerging market MNEs (EMNEs) to compete successfully in smaller emerging markets. Cuervo-Cazurra and Genc (2008) and Celly et al. (2016) argue that EMNEs possess firm-specific advantages in emerging markets that are similar to their home countries. Russian and Chinese MNEs, in particular, bring different competitive advantages to Central Asian markets compared to western MNEs (Subramanian & Abilova, 2020). It may be that the ability of an EMNE to compete successfully in another emerging country depends not only on institutional distance between home and host country but also on the nature of the industry.

In Kazakhstan, DMNEs with capital endowments and superior technology dominate in capital-intensive sectors such as oil and gas. However, in sectors such as retail, banking, and telecommunications, EMNEs appear to outcompete Western MNEs—and local Kazakh firms—by being better able to navigate the institutional environment and possessing superior marketing and distribution capabilities. In 2018, Telia, a Swedish-Finnish telecom operator with subsidiaries in Central Asia, divested its operations in Kazakhstan after it was hit by a series of bribery scandals in its Uzbekistan subsidiary (BBC, 2021; Patterson & Gauthier-Villars, 2015). Telia sold its holding in Kcell, its subsidiary in Kazakhstan, to Kazakhtelecom, a company wholly owned by Samruk-Kazyna (Telia company, 2018). Shortly thereafter, in 2019, Swedish telecom operator Tele2 AB also sold its stake in its Kazakhstan subsidiary to Kazakhtelecom. These divestments effectively gave Kazakhtelecom control of three of Kazakhstan's four mobile telecom operators (Reuters, 2019). The only telecom operator controlled by a foreign privately held MNE in Kazakhstan (38% market share) is Beeline, a subsidiary of Russia's Veon.[9]

[9] https://www.veon.com/our-brands/beeline-kazakhstan/

Similarly, Western MNEs do not figure prominently in Kazakhstan's highly concentrated commercial banking sector in which the largest 5 (of the 27) commercial banks in Kazakhstan control 67% of client deposits, 66% of the commercial loan portfolio, and 64% of total assets (National Bank of Kazakhstan, 2021c: 14). Of the top five, Russia's Sberbank (the third largest) is the largest controlled by a foreign MNE; the only large bank subsidiary controlled by a Western MNE is Citibank (#10). Another Western MNE, HSBC (United Kingdom), sold its Kazakhstan subsidiary to Kazakhstan's Halyk Bank in 2014 (Reuters, 2014), which subsequently sold controlling interests in the subsidiary to Chinese investors, China CITIC Bank and China Shuangwei Investment Corporation (Reuters, 2018).

6.3 Doing Organizational Research in Central Asia: Tales from the Field in Kazakhstan

Though the Central Asian context has unique features that enable advancement of IB scholarship, the region presents challenges and opportunities for conducting organizational research. Here, we draw on our experience doing research in Kazakhstan to highlight these challenges and opportunities. They relate to the nascent organizational research culture and difficulty in accessing broad-based firm-level data.

Academic institutions in Kazakhstan, and in Central Asian more broadly, remain at the periphery of the global organizational research landscape. We speculate that the reasons for relative inattention to organizational research stems partly from the countries' low investment in research and development (R&D). Central Asian countries—Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—spend about 0.1% of GDP on research and development (R&D) (The World Bank, 2021b), much lower than the investment levels of Turkey and Russia, which devote approximately 1% of GDP to R&D.

Low levels of R&D spending at the national level are reflected in the raison d'être of local universities. Kazakh universities, especially those that offer social science programs, are set up principally to teach. Faculty are not incentivized to publish in top academic journals; as such, few local academics tend to be active members of professional bodies such as the Academy of Management (AOM) and the Academy of International Business (AIB). As of November 2021, there were only five registered AOM members at Central Asian academic institutions (two in Kazakhstan, two in Kyrgyzstan, and one in Uzbekistan). Similarly, the Academy of International Business (AIB) has only two registered members within institutions in the region and has no regional chapter in Central Asia. Unsurprisingly, the country's universities do not offer globally accredited graduate training programs in management and organizational research.

That does not mean, however, that there are no talented Kazakh students interested in doing graduate work in organization studies. On the contrary, we have observed keen interest in organizational research among students. For our research projects, we have successfully recruited talented young Kazakh researchers as research assistants (RAs). These young researchers, trained in Kazakhstan's

impressive mathematics and science academies and in reputable Western universities, have subsequently gone on to pursue graduate studies at top US and European business schools.

The government of Kazakhstan, a relatively rich country, has recognized the need to develop world-class research capacity in the country as part of its long-term development agenda. It established in 2010 Nazarbayev University as an autonomous, US-style, research university. Generously funded by the government, Nazarbayev University, our home institution, has since its inception attracted well-published research faculty trained at top US and European research universities across the medical, social, and physical sciences—as well as the most talented Kazakh students from its top-tier high schools and from outside Kazakhstan.

Related to the nascent research culture at Kazakhstan's universities is the attitude of local business leaders to primary data collection. It is not unusual for organizational scholars based in Western universities to send survey requests to Fortune 500 companies and expect to achieve a response rate suitable for publication in top journals such as the *Journal of International Business Studie*s (JIBS), *Strategic Management Journal* (SMJ), and the *Academy of Management Journal* (AMJ). There is often an unstated assumption that firms in Europe and the United States are in principle open to being studied by academics. In our experience, however, managers in large Kazakh companies are reluctant to share data about their companies.

We assume that managers of large Kazakh firms, like many managers of firms in Western countries, are often skeptical about academic research because they do not see the value of academic research to their business. We suspect that Kazakh managers' reluctance to share data may additionally stem from fear of being reprimanded by their superiors for doing so. For instance, as we wrote this chapter, we contacted a senior manager within a Kazakh company to confirm the company's 2020 market share. The company had published its 2017 market share on its website; we wanted to know whether market share had changed since 2017. To our surprise, our contact was reluctant to share this information. Even after we pointed out to her that the 2017 information was publicly available on her company's website, she said she had to confirm with her boss before releasing the information to us. In a 2021 executive MBA class, one of us asked a senior manager of the local subsidiary of a German MNE what her company's operating profit was. Even though the information was publicly available in the company's annual report, the manager refused to tell the class because it was supposedly a company secret. We have found that accessing firm data, especially in large Kazakh firms, involves navigating the skepticism of managers; in our experience, access usually occurs only with the express approval of a firm's top leaders. (The primary data on which this chapter is based were obtained with the support from the firms' top managers or from mid-level managers on the condition of anonymity.)

While obtaining primary data about large firms is a complicated affair that involves balancing the interests of the company's senior leaders against the researcher's interest, secondary firm-level data is relatively abundant. The government collects firm-level data on revenue, profit, number of employees, hierarchical

levels, board memberships, and number of foreign subsidiaries. In theory, the data should be accessible to the public; in practice, access is restricted to those with the requisite personal networks referred to locally as *agaschki*. (There is abundant aggregated regional-level and national-level data at Kazakhstan's national statistics office.) One of us needed firm-level data on employment for a research project he was working on. He knew, from his contacts within Kazakhstan's statistical agency, that the data is systematically collected and reported to the country's statistical agency. However, he could only access the data after working through approvals and with the assistance of an influential government official.

Despite these limitations, secondary firm-level data is becoming publicly available in Kazakhstan. Sources include multilateral institutions such as the World Bank and the Asian Development Bank (ADB) who regularly collect firm-level data on financial performance and business practices, private database firms such as PitchBook[10] that increasingly track cross-border mergers and acquisitions (M&As) used for academic research, and private equity (PE) and venture capital (VC) companies based within and outside the region[11] that are actively investing in non-resource sectors in Central Asia.

IB scholars interested in studying cross-border MNE practices, policies, and patterns in Central Asia using primary data would do well to invest in building relationships with key decision-makers within large companies or with policymakers involved in FDI. Our research projects have been enhanced by cultivating relationships with these decision-makers. Furthermore, researchers should be prepared to mentor younger researchers in the region during a research collaboration.

7 Conclusion

It is unsurprising that the Central Asian region, comprising Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan, has been ignored by international business (IB) scholarship. Compared to emerging countries, such as China, Russia, Brazil, and Turkey, which have commanded much scholarly attention, Central Asian economies are small. Nevertheless, Central Asia, located at the crossroads between the large markets of Asia and Europe, and an important arena for great power competition among Russia, China, and the United States, has witnessed significant inward FDI and economic growth. Kazakhstan, the most prosperous country in Central Asia, has emerged as a stable upper middle-income country, attracting nearly $150 billion of inward FDI. Kazakh firms, like many other emerging country firms (EMFs), have also invested abroad to the tune of about $16 billion.

[10] https://pitchbook.com/

[11] Prominent firms include Falconry Venture Capital (https://falconryfund.kz/); Highland Capital (https://highland.kg/#section6), and Sturgeon Capital (https://www.sturgeoncapital.com/).

Using Kazakhstan as a lens into the region, we present three cases of Kazakh firms—Air Astana, BI Group, and KazMunayGas—that have attempted to internationalize their operations. We find that classical motives for internationalization (e.g., market-seeking, strategic asset-seeking) apply to the internationalization patterns of these firms. Furthermore, these firms use internationalization as a springboard to escape their small domestic markets.

Central Asia presents unique contextual features to address several questions that have potential to advance IB scholarship. Being susceptible to exogenous shocks involving its powerful neighbors, Central Asia is fertile ground for supranational studies on how MNEs evaluate, anticipate, and respond to geopolitical risk affecting their business operations, a key gap in the IB literature. Second, due to its importance to the security, economic, and geopolitical interests of the great powers—Russia, China, and the United States—Central Asia offers the opportunity to examine the nonmarket strategies (NMS), specifically bargaining strategies, that MNEs employ to interact with their home country (great power) governments. Doing so will refine scholarly understanding of MNE bargaining models, which tend to downplay MNE-home country interactions. Third, as IB interest in the internationalization of state-owned enterprises (SOEs) grows, the Central Asian context may challenge the dominant assumption that SOEs respond to unitary domestic state actors. Informal fragmentary ethnic alliances, which pre-date and co-exist with formal state apparatus, may be a potent influence on the direction, level, and location of FDI. If so, what role then does the formal state play in promoting internationalization where there is no clear industrial policy to do so? Finally, Central Asia could fruitfully allow scholars examine better whether developed country MNEs (DMNEs) outperform emerging market MNEs (EMNEs) when competing in a third (smaller) emerging market.

We hope to stimulate IB researchers' interest in interpreting the Central Asian context using insights from the IB as well as international relations (IR) literature in order to advance our long-established theories of firm internationalization.

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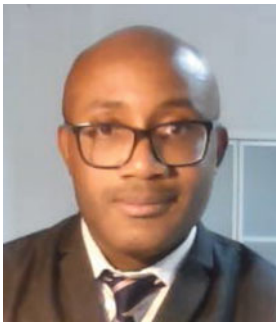

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