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IMPACT OF POLITICAL AND ECONOMIC INDICATORS ON NEW BUSINESS FORMATION: EVIDENCE FROM KAZAKHSTAN

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Abstract. Entrepreneurial activity has long been recognized as a key indicator of a country's economic and institutional health. This issue is particularly acute in emerging economies, where the launch of new enterprises depends on market and political, institutional, and macroeconomic conditions. Kazakhstan is a prime example of a country with significant economic potential. However, it faces challenges

related to the quality of institutions, the economy's diversification, and the sustainability of growth.

The study aims to assess the impact of governance indicators, trade openness, GDP, and foreign direct investment on the formation of new enterprises in Kazakhstan. To achieve this, the authors utilized data from the World Bank and national statistical databases for the period 2006-2020 and then tested it using linear regression. The model results showed that FDI does not significantly affect the formation of new companies in Kazakhstan, as most investments are directed towards the extractive industries of the national economy. At the same time, trade openness contributes to the development of SMEs, despite the adverse effect of the governance indicator. It was puzzling that economic growth does not stimulate small businesses in Kazakhstan.

Keywords. *New businesses, entrepreneurship, Kazakhstan, political and economic factors, governance indicators, GDP, trade openness, FDI.*

САЯСИ ЖӘНЕ ЭКОНОМИКАЛЫҚ КӨРСЕТКІШТЕРДІҢ БИЗНЕСТІҢ ЖАҢА ҚАЛЫПТАСУЫНА ӘСЕРІ: ҚАЗАҚСТАННАН АЛЫНҒАН ДЕРЕКТЕР

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Аңдатпа. Кәсіпкерлік белсенділік елдің экономикалық және институционалдық жағдайының маңызды көрсеткіші ретінде бұрыннан танылған. Бұл мәселе әсіресе дамушы экономикаларда өткір тұр, онда жаңа кәсіпорындардың іске қосылуы тек нарық жағдайына ғана емес, сонымен қатар саяси, институционалдық және макроэкономикалық жағдайларға да байланысты. Қазақстан айтарлықтай үлкен экономикалық әлеуетке ие елдің жақсы үлгісі болып табылады. Дегенмен, ол институттардың сапасына, экономиканың әртараптандыруына және тұрақты өсуге байланысты қиындықтарға тап болады.

Зерттеу басқару индикаторларының, сауда ашықтығының, ЖІӨ-нің және тікелей шетелдік инвестициялардың Қазақстанда жаңа кәсіпорындар ашуға әсерін бағалауға бағытталған. Ол үшін авторлар Дүниежүзілік банктен және ұлттық статистикалық базалардан 2006-2020 жылдардағы деректерді алып, оларды сызықтық регрессия арқылы сынады. Модель нәтижелері ТШИ Қазақстанда жаңа компаниялардың қалыптасуына әсер етпейтінін көрсетті, өйткені олардың басым бөлігі ұлттық экономиканың өндіруші салаларына бағытталады. Сонымен қатар, сауданың ашықтығы мемлекеттік басқару көрсеткішінің кері әсеріне қарамастан ШОБ дамуына ықпал етеді. Экономикалық өсім Қазақстандағы шағын бизнесті ынталандырмайтыны таң қалдырады.

Түйін сөздер: *жаңа бизнес, кәсіпкерлік, Қазақстан, саяси және экономикалық факторлар, басқару көрсеткіштері, ЖІӨ, сауданың ашықтығы, ТШИ.*

ВЛИЯНИЕ ПОЛИТИЧЕСКИХ И ЭКОНОМИЧЕСКИХ ПОКАЗАТЕЛЕЙ НА СОЗДАНИЕ НОВЫХ ПРЕДПРИЯТИЙ: ДАННЫЕ ПО КАЗАХСТАНУ

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Аннотация. Предпринимательская активность давно признана важным показателем экономического и институционального состояния страны. Особенно остро этот вопрос стоит в странах с развивающейся экономикой, где запуск новых предприятий зависит не только от конъюнктуры рынка, но и от политических, институциональных и макроэкономических условий. Казахстан является хорошим примером страны, которая обладает значительным экономическим потенциалом. Тем не менее, она сталкивается с проблемами, связанными с качеством институтов, диверсификацией экономики и устойчивым ростом.

Исследование направлено на оценку влияния индикаторов управления, открытости торговли, ВВП и прямых иностранных инвестиций на открытие новых предприятий в Казахстане. Для этого авторы взяли данные из Всемирного банка и национальных статистических баз за 2006-2020 годы и протестировали их с помощью линейной регрессии. Результаты модели показали, что ПИИ не влияют на формирование новых компаний в Казахстане, поскольку их большая часть направляется в добывающие отрасли национальной экономики. В то же время открытость торговли способствует развитию МСБ, несмотря на обратный эффект показателя государственного управления. Озадачило, что экономический рост не стимулирует малый бизнес в Казахстане.

Ключевые слова: *Новый бизнес, предпринимательство, Казахстан, политические и экономические факторы, показатели управления, ВВП, открытость торговли, ПИИ.*

Introduction

As Stevenson and Jarillo (1990) note, the likelihood of a successful start-up is primarily determined by the specific institutional and market conditions in which the entrepreneur operates. In the context of increasing institutional transformation and the instability of the global economic environment, the formation of new enterprises is becoming an essential indicator of a country's economic viability and its ability to adapt to internal and external challenges. Entrepreneurial activity reflects not only the population's economic initiative level, but also the degree of openness and flexibility of the institutional environment in which it is carried out.

Numerous studies (Tajaddini & Gholipour, 2021; Abegaz et al., 2023; Sendra-Ponsa, 2022) emphasize that the processes of creating new businesses are influenced by a wide range of factors, among which political and economic indicators are of particular importance. Political stability, the effectiveness of public administration, the quality of regulation, and compliance with the rule of law form the institutional conditions that determine the level of trust, protection of rights, and predictability for potential entrepreneurs. At the same time, macroeconomic indicators such as GDP per capita, inflation, openness to trade, and foreign direct investment, among others, determine the real opportunities for launching and developing new projects.

Despite an extensive theoretical and empirical foundation, the interaction between political and institutional characteristics and entrepreneurial activity remains a topic of debate, particularly in countries undergoing institutional reforms or experiencing economic instability. The lack of a comprehensive approach to assessing the impact of various political and economic factors on the formation of new enterprises, considering the country's development trajectory, limits the possibilities of developing effective strategies for state support of entrepreneurship.

This study aims to investigate how key political and economic indicators influence the establishment of new enterprises in Kazakhstan's economy. To solve this problem, we formulated the following working hypotheses.

Hypothesis 1. Economic growth, trade openness, and foreign direct investment inflows lead to increased entrepreneurial activity, resulting in the establishment of new enterprises.

Hypothesis 2. Effective public administration has a direct positive impact on the development of entrepreneurship. In the long term, it expands entrepreneurship opportunities by creating "equal opportunities" for market participants, thereby contributing to a healthy competitive environment.

Regression analysis was employed to test the hypotheses presented. The results enable a more accurate identification of the relationship between macroeconomic indicators and entrepreneurial activity, providing a basis for practical conclusions. These data can be helpful in the formation of state policy in the field of supporting small and medium-sized businesses, as well as in the development of economic strategies aimed at stimulating business activity in the regions. The authors hope that this study will contribute to the limited literature on Central Asian studies in this field.

The structure of this article is built following the classical logic of scientific research. The first part examines the key theoretical approaches and justifies the relevance of the stated topic. Here, special attention is paid to analyzing scientific works that form the basis for further empirical research, specifically the impact of macroeconomic and political factors, such as governance and corruption, on entrepreneurship development. Furthermore, the methodological principles are sequentially disclosed, and the data used are described, which enables a more accurate representation of the structure and logic of the analysis. The central part of the work is devoted to presenting the modeling results and their interpretation. In conclusion, the main conclusions are formulated, and the directions of possible practical application of the results are outlined.

Literature review

New business formation is spatially uneven (Hájek et al., 2015; Nekolová et al., 2016). Entrepreneurship is the essential source of economic and social development in society. In well-off countries, the majority of the middle class is engaged in medium-sized and small businesses. Natural, labor, and investment resources are traditionally considered as factors of production – land, labor, and capital. Schumpeter (1934) referred to "entrepreneurship" as the fourth factor linking these three resources. An entrepreneur is the «innovator» who seeks out and introduces new aspects of production.

Entrepreneurial ability refers to a person's capacity to utilize a specific combination of resources to produce a product, make informed decisions, generate innovations, and take calculated risks (McConnell, 1963). In general, entrepreneurship itself is affected by various factors and indicators at both the macro and micro levels (Sutaria & Hicks, 2004). Additionally, factors such as the state's geopolitical situation, management indicators, unemployment rate, and the ease of finding employees are equally important. As demonstrated by Audretsch et al. (2014), strong entrepreneurship can lead to a reduction in unemployment within an economy.

Several key factors are essential for developing new businesses. For instance, foreign direct investment (FDI) plays a crucial role in stimulating entrepreneurial activity and transforming national economies. As a source of financial resources, FDI can have a comprehensive impact on entrepreneurship development. By introducing modern technologies, management methods, business ethics, and corporate

governance standards, FDI can positively impact local business structures, forming an entrepreneurial culture. FDI increases the level of competition in the domestic market, encouraging local companies to adapt to higher standards, optimize their production processes, and enhance the quality of their products and services.

In turn, the ability to foster entrepreneurship and create conducive conditions attracts investment, allowing entrepreneurs from other countries to establish their businesses. Investments signify a country's participation in the global economic process (Gutkevych, 2019). Foreign investments are currently relevant for business development and as a means of national defense. Additionally, attracting foreign investment is one of the underlying factors driving the nation's economic growth, as noted by Misztal & Kulakou (2024). The extent to which the state supports investors and the policies it adheres to can play a decisive role in shaping a business.

Hymer (1976) and Dunning (1980) considered the theoretical basis of various factors influencing foreign investment. The influence of investment on forming a new company varies from country to country. This is influenced not only by the country's social and economic conditions but also by factors such as its location, geopolitical situation, natural resources, and human capital. For example, 148 foreign investors operating in Kosovo stated that the available market size and low cost of doing business are crucial factors in their decision to invest in the country (Kida et al., 2025).

However, how does the business climate influence the investment and other economic parameters? Some studies have shown that the ease of doing business does not influence foreign investment. For example, Firdaus et al. (2024) demonstrated that in ASEAN countries, the good governance indicators are more critical. Nevertheless, studies conducted in the SADC region (Nyathi & Mlobane, 2024), Jakarta (Martua et al., 2023), and Nigeria (Opuala-Charles & Oshilike, 2023) revealed a positive and significant impact of Ease of Doing Business indicators on investment attractiveness. As Phan and Nguyen (2024) noted, attracting investment in foreign companies and improving governance quality are crucial. For investment decisions, profitability, liquidity, firm size, and age are also significant factors (Said, 2024).

In addition to the impact of FDI, the role of trade openness is of enduring interest to scholars. In the context of globalization and the acceleration of cross-border economic processes, trade policy is becoming one of the most crucial tools for shaping the business environment, particularly in countries with developing or transitioning economies. A study by Salange and Kahyaoğlu (2024) reveals the nonlinear relationship between trade openness and entrepreneurial activity. The authors conclude that a positive effect is observed at a moderate level of transparency, while exceeding a certain threshold can lead to a harmful impact. The study by Dilanchiev and Sekreter (2015), using the example of Georgia, also emphasizes the importance of trade liberalization for countries with economies in transition. The work of Effiom et al. (2022) demonstrates a positive but insignificant impact of trade openness on entrepreneurship, which may indicate the influence of other factors such as institutional conditions, the level of infrastructure development, and access to finance.

Another issue that has remained a focus of the scientific community in recent years is the impact of public administration on entrepreneurship development.

Modern research emphasizes that economic and institutional conditions determine the scale and stability of entrepreneurial activity. Phan and Nguyen (2024), based on panel data for 61 provinces in Vietnam from 2011 to 2019, analyzed the role of local government and concluded that the improvement of anti-corruption practices, transparency of administrative procedures, and the quality of public services are directly related to the positive dynamics in regional markets. A similar emphasis can be traced in the work of Sendra-Ponsa (2022), where data from 48 countries with different levels of socio-economic development are analyzed. The application of qualitative comparative analysis (QCA) enabled the identification of key variables that affect the likelihood of entrepreneurship emerging and its scale, including political stability, quality of regulation, rule of law, and the availability of credit and ease of starting a business.

Kaufman et al. (2008, 2009, 2011) defined six primary indicators for assessing the quality of government, known as global governance indicators, evaluated by the World Bank. Abegaz et al. (2023) examined the importance of these governance indicators (including corruption control, government effectiveness, and the rule of law) on entrepreneurship development using the example of 126 countries. The regression analysis results showed that most management variables have a statistically significant impact on entrepreneurship development, explaining more than 70% of the variability of the target indicator. The authors emphasize that even modest improvements in institutional parameters can contribute to the growth of new businesses, especially in middle-income countries.

There is limited research on the impact of GDP on the birth of new businesses, as the opposite effect is often considered when growth in the number of enterprises leads to economic growth. Nevertheless, individual studies confirm the positive impact of GDP growth on the opening of new companies (Vyrostková & Kádárová, 2023; Njegomir, 2019).

Thus, economic and institutional factors related to the quality of public administration play a crucial role in creating conditions for entrepreneurial activity and the establishment of new enterprises.

Data and Methods

Regression analysis was employed as the primary research method, enabling us to assess the degree of influence of various factors on the development of business in Kazakhstan. Macroeconomic data from national statistical databases (the Bureau of National Statistics of the Republic of Kazakhstan and the National Bank of Kazakhstan) and global governance data from the World Bank database for the period 2006-2020 were selected for modeling. Table 1 describes all the variables used in the model.

Table 1. Description of variables in a model

Variables	Description	Source
Dependent variable		
NewFirms (Y)	New businesses registered (number)	https://stat.gov.kz/

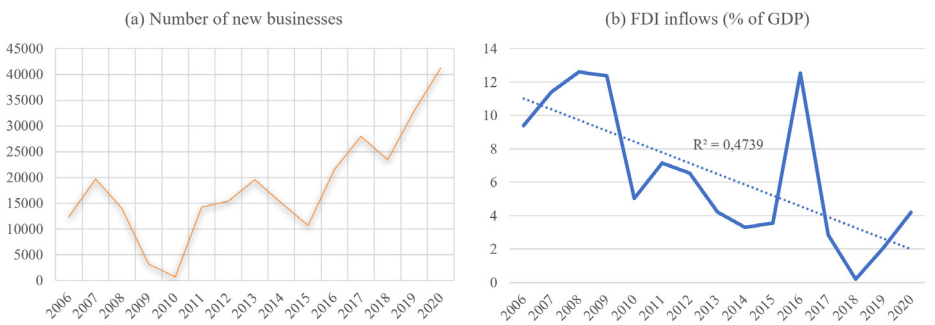
Independent variables		
FDInet (X1)	Foreign direct investment, net inflows (% of GDP)	https://www.nationalbank.kz/
VA (X2)	Voice and Accountability	https://www.worldbank.org/
RL (X3)	Rule of Law	https://www.worldbank.org/
GDP (X4)	Annual growth of GDP, %	https://www.worldbank.org/
TR (X5)	Trade Openness	https://www.worldbank.org/

Note: compiled by the authors

The "Number of newly registered enterprises" is the dependent variable in the regression model. Explanatory variables include gross domestic product annual growth, foreign direct investment flows as a percentage of GDP, trade openness, and two worldwide governance indicators, "Voice and Accountability" and "Rule of Law," as per the methodology of the World Bank (Kaufman et al., 2008, 2009, 2011).

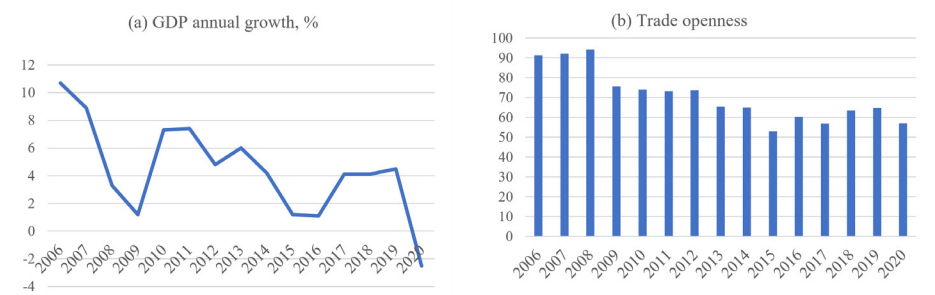
The diagrams below illustrate the dynamic statistics of these indicators for the period from 2006 to 2020. The authors will discuss them in the next part of the article.

Figure 1. Number of new businesses and FDI net flow in Kazakhstan, 2006-2020



Note: compiled by authors based on data from the Bureau of National Statistics of Kazakhstan (a) and the National Bank of Kazakhstan (b)

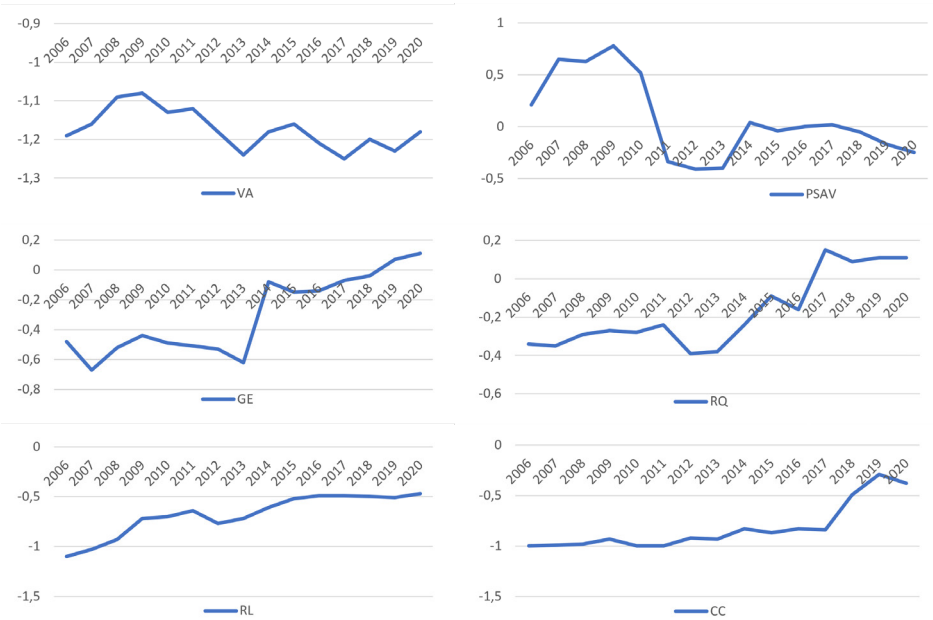
Figure 2. Dynamics of GDP growth and trade openness for Kazakhstan, 2006-2020



Note: compiled by authors based on data from the World Bank

Initially, we tried to involve all six worldwide governance indicators from the World Bank database: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption (World Bank, 2024). The standard range of values for these indicators varies from -2.5 to 2.5 (Figure 3). It is worth noting that most of the indicators for Kazakhstan have only negative values.

Figure 3. Dynamics of worldwide governance indicators of Kazakhstan, 2006-2020



Note: compiled by authors based on the World Bank database

As part of the study, multicollinearity was preliminarily addressed by excluding variables, specifically four out of six institutional quality indicators that were highly correlated with each other (see Table 2). This made it possible to avoid the distortion of the results associated with model overfitting.

Table 2. Correlation matrix (Pearson correlation)

	Y	*VA*	*PCAV*	*GE*	*RQ*	*RL*	*CC*
Y	1						
VA	-0,629	1					
PCAV	-0,511	0,616	1				
GE	0,637	-0,437	-0,337	1			
RQ	0,693	-0,428	-0,272	0,891	1		
RL	0,442	-0,365	-0,501	0,793	0,7530	1	
CC	0,777	-0,432	-0,384	0,824	0,8048	0,621	1

Note: compiled by the authors

Therefore, having built numerous models, we found a statistically significant impact on starting a new business in Kazakhstan for only two indices: Voice and Accountability (VA) and Rule of Law (RL). Consequently, we retained these two indices in the model.

Thus, our work will focus on assessing the impact of FDI, GDP growth, trade openness, and worldwide governance indicators on the number of new registered enterprises. At the next step, we created the central equation for our model. Based on a theoretical and empirical review of the literature and selected variables, the equation (1) below was determined and used further to estimate:

$$NewFirms=f(FDInet,VA,RL,TR,GRPgrowth) \qquad (1)$$

A linear multiple regression model (2) was constructed after numerous attempts to determine the model that best describes the existing dependencies:

$$NewFirms=b_0+b_1\,FDInet+b_2\,VA+b_3\,RL+b_4\,GDPgrowth+b_5\,TR+c \quad (2)$$

The model was evaluated using the EViews and SPSS programs.

Results and Discussion

To begin with, we will discuss some statistical data on Kazakhstan. Various programs and grants aimed at developing small and medium-sized enterprises (SMEs) are being implemented in the republic. National statistics indicate that SMEs have increased significantly, quadrupling over the last decade, despite the number of large enterprises growing at a slower pace. However, in some years, the registration of SMEs decreased due to the negative impact of the 2008 global financial crisis and its consequences, as well as the volatility of world oil prices in 2014 (Fig.1a).

The dynamics of FDI inflows in Kazakhstan (Fig.1b) show that FDI generally had a steady downward trend during the period under review (R2 of the linear trend is 0.47%). If we deduct investments in the mining, oil, and gas industries from the total FDI flow, then investments in the real sector of the economy will be significantly reduced. Therefore, the primary challenge for the country today is to redirect FDI to new companies and start-ups, including those in manufacturing.

Our study also involves two other macroeconomic indicators that can influence the formation of new businesses to varying degrees: GDP and trade openness. Analysis of the dynamics of the annual GDP growth rate (Fig. 2a) from 2006 to 2020 enables us to identify several characteristic stages in Kazakhstan's economic development. Relatively high economic growth indicators characterize the period's beginning under consideration. However, by 2009, there was a sharp decline in rates, mainly due to the impact of the 2008 global financial crisis. In the following years, a revival and short-term rise occurred, accompanied by further fluctuations, reflecting the instability of the external economic situation and domestic macroeconomic policy. The presented data illustrate the cyclical nature of economic development and emphasize the vulnerability of macroeconomic performance to domestic and external challenges.

Figure 2b demonstrates a general downward trend in the level of trade openness in Kazakhstan. From 2006 to 2008, this indicator remained at a relatively high level; in the following years, it gradually declined, reaching a minimum in 2015, which was likely due to external economic shocks, the devaluation of the national currency from 2015 to 2017, and changes in the terms of trade. It is worth noting that the level of trade openness never recovered from that point. This suggests structural shifts in the economy and a potential decline in the country's GDP due to foreign trade.

Global governance indicators are important for investors in terms of FDI. Fortunately, although control over corruption, regulatory quality, and government efficiency have shown positive dynamics in recent years (Figure 3), the geopolitical situation, due to the war in Ukraine, negatively impacts our country's economy, as evident from the dynamics of the indicator "Political stability and absence of violence."

The correlation matrix in Table 3 confirms the absence of significant multicollinearity and demonstrates the overall degree of relationships between the variables shown in Table 1.

Table 3. Correlation coefficients

	New Firms	**FDI inflows (% of GDP)**	**Voice and Accountability**	**Rule of Law**	**GDP annual growth, %**	**Trade openness**
New Firms	1					
FDI inflows (% of GDP)	-0,38505	1				
Voice and Accountability	-0,62946	0,556725	1			
Rule of Law	0,442406	-0,59911	-0,36497	1		
GDP growth, % annual	-0,3743	0,087278	-0,04448	-0,67748	1	
Trade openness	-0,41454	0,656205	0,511772	-0,93637	0,617882	1

Note: compiled by the authors

Thus, this study focuses on the economic and political factors that significantly impact business formation in Kazakhstan. We will present the regression model results assessing the impact of macroeconomic and governance indicators on the creation of new firms in our country (Table 4).

Table 4. Regression statistics

Multiple R	0,864689	*Dispersion analysis*					
R-square	0,747688		df	SS	MS	F	F
Normalized R2	0,607514	*Regression*	5	1,16E+09	2,33E+08	5,33401	0,014904
Standard Error	6607,575	*Residual*	9	3,93E+08	43660046		
Variables	15	*Total*	14	1,56E+09			
	Coefficient	*Standard Error*		*t-statistics*	*P-value*	*Lower 95%*	*Upper 95%*

New Firms	-260272	70092,14	-3,71329	0,00482	-418832	-101713
FDI inflows (% of GDP)	-697,03	676,9169	-1,02971	0,330022	-2228,32	834,2626
Voice and Accountability	-202603	49226,49	-4,11574	0,002615	-313961	-91245,2
Rule of Law	39046,57	27720,73	1,408569	0,192559	-23662,1	101755,2
GDP annual growth, %	-2451,04	908,8443	-2,69687	0,024519	-4506,98	-395,087
Trade openness	1168,299	470,5774	2,482692	0,034837	103,7786	2232,818

Note: compiled by the authors

Table 4 shows that, overall, the quality of the model is good because it explains the dynamics of the dependent variable (newly registered firms) at 74.8 percent − the value of R^2 justifies this. In particular, the multiple R value of 0.864 indicates a high correlation between the dependent and independent variables. When the normalized value of R^2 is 0.608, it considers the number of variables, and its decrease suggests that some predictors may be insignificant.

Overall, the data structure (linear dependence, lack of autocorrelation in the residuals, and significance of the model as indicated by the F-statistic) allows us to conclude that the model has high explanatory power ($R^2 = 0.75$), and its basic characteristics are stable. It is also worth noting that the normalized value of $R^2 = 0.61$ confirms that, despite the limited number of observations (n = 15), the model demonstrates consistency among the variables.

However, not all variables have a significant impact. Briefly, variables X2 and X4 have a significant negative impact, while X5 has a significant positive impact. Variables X1 and X3 are insignificant, which may indicate that their impact is random or that a different analysis method is needed. Thus, the final regression equation (3) of the model is as follows:

$$NewFirms=-260272 - 697,03FDInet - 202603VA + 39046,57RL - 2451,04GDPgrowth + 1168,299TR \quad (3)$$

As we can see, there is a reasonably significant “free” coefficient in the equation. This can be explained by the fact that the dependent variable is influenced not only by the factors considered (X1–X5) but also by other variables, structural features, and systemic effects that are not included in the model but have a distorting effect, which should be considered in further research.

We also observe that, according to the t-test results, variables X1 and X3 exhibit p-values exceeding the generally accepted level of significance (0.330 and 0.193, respectively), indicating that these factors do not have a reliable influence on the dependent variable at the current model specification and sample size. Nevertheless, we consider the inclusion of these variables at this stage of the study to be justified, as their influence may become apparent in a larger sample or when controlling for other variables. Even in the absence of statistical significance, these variables contribute to improving the model's quality ($R^2 = 0.75$), particularly in the context of complex interrelationships between factors. In the next steps of the study, we plan to

optimize the model, including stepwise regression, testing alternative specifications, and conducting a sensitivity analysis to assess the stability of the results. This will enable us to exclude or retain the controversial variables in a reasonable manner.

Before we interpret the results of the regression equation, it is worth noting that initially, when determining the determinants of creating a new business in the country, we sought to answer the question of what is important for developing entrepreneurship and starting a business.

Many studies confirm the importance of sound economic indicators; however, political factors, the quality of institutions, the stability of legislation, and the effectiveness of public administration in the country are equally important. Acemoglu, Johnson, and Robinson, winners of the 2024 Nobel Prize, proved that differences in the well-being of countries depend on their political and economic institutions.

These conclusions are important for understanding many processes in Kazakhstan. There is considerable evidence that poor state regulation is a hallmark of underdeveloped countries, characterized by weak institutions and high corruption that hinder the country's economic development.

It is evident that the quality of state regulation, as reflected in strong institutions, has a positive impact on entrepreneurship, whereas corruption, a characteristic of low-quality institutions, hinders it. It has been proven that bureaucratic corruption is the only way to start and develop a business in countries where governance institutions are of poor quality. Rashid et al. (2023) prove that countries with poor regulatory quality also have a high level of corruption. Unfortunately, according to Transparency International (2024), Kazakhstan is one of these countries.

Thus, in this study, we also proceeded from the assumption that the creation of a business and its development in any country depend on a combination of political and economic factors, such as the degree of their development. In Kazakhstan, due to our country's authoritarian political system, these factors are closely intertwined and mutually influence each other.

Obviously, the model also has significant limitations due to the lack of a broad set of panel data and sufficient time series. However, let us interpret the model's results in more detail. Three variables are economic, and two are political. Let us analyze each group of variables carefully.

The regression model's assessment found statistically significant impacts on economic indicators such as net FDI inflows to Kazakhstan, economic growth (GDP growth), and trade (market) openness.

Let us begin our analysis sequentially with variable X1, which represents the net FDI inflow into the Kazakh economy. The model showed that its effect is negligible and even hostile; therefore, we conclude that the net inflow of FDI to Kazakhstan does not significantly affect the creation of new businesses in the country. Moreover, there is a risk that a 1% increase in FDI inflows may result in a decrease of 697 newly registered firms in the country.

How can this Kazakh phenomenon be described? As is known, there is considerable evidence that developing countries, which attract significant FDI flows, have received various advantages in the form of access to capital and have developed their production. Of course, many studies point to the adverse effects of

FDI; however, our study will focus on why, in Kazakhstan, which is the leader in attracting FDI in the post-Soviet region, FDI has not played the role of a driver for the development of SMEs.

It is well known that Kazakhstan is also a country exporting raw materials. On the positive side, mineral resources are critical factors in a country's economic development, serving as vital raw materials for various industries, infrastructure projects, and technological advancements, as noted by He and Mou (2020) and Baz et al. (2022).

However, in the case of Kazakhstan, most FDI is attracted to the extractive sector of the economy, where only export-oriented, national companies (larger businesses) operate, thereby monopolizing this sector. It will not be easy to eliminate this dependence without diversifying the national economy, as a country that relies heavily on exporting raw materials is vulnerable to global economic shocks. As a result, it can be concluded that there is no incentive for new firms (small and medium-sized enterprises) to start business in the extractive industry of Kazakhstan, despite the favorable investment climate in this sector of the national economy.

Thus, the negative impact of FDI in the model demonstrates that FDI does not act as a stimulus for SMEs, as investments do not flow into manufacturing, IT, services, or other sectors where new companies could be formed. Moreover, dependence on the extractive sector leads to structural imbalances and reduces entrepreneurial activity in other industries.

The following economic variable is GDP growth. Many studies confirm that GDP growth contributes to the establishment of new companies, as incomes and wealth increase, access to finance expands, and favorable market conditions for entrepreneurship are created (Vyrostková & Kádárová, 2023). Surprisingly, we discovered a negative correlation between this indicator and the number of newly registered firms in Kazakhstan. The experiences of developed economies and dynamically developing countries demonstrate that the growth of SMEs has a positive impact on GDP. Therefore, the support and development of businesses is a strategic task of any state. Therefore, following this logic, it is predictable to expect that GDP growth, in turn, should stimulate business development. However, our model indicates that a one percentage point increase in the variable “GDP growth” may result in a decrease of 2,451 registered enterprises in the republic. We conclude that GDP growth in Kazakhstan is unrelated to the activities of real SMEs, which do not contribute a significant share to the positive dynamics of this indicator.

Let us examine the nature of GDP growth in Kazakhstan briefly. Kazakhstan is an extractive country, with its economy heavily reliant on the extractive industry. In our opinion, GDP growth in Kazakhstan is not ensured by real growth in the production of final goods and services. Moreover, the country's economic growth indicator depends significantly on the favorable conditions for national export-oriented companies (large businesses) in the global mineral resources market, specifically the world oil prices. Additionally, it is essential to consider the impact of the exchange rate on the value of GDP. Typically, the national currency's exchange rate against the US dollar, as the world's reserve currency, is devalued in favor of an increase in the country's export revenues, as the state budget relies on them. Devaluation refers to the low purchasing power of the national currency, the Tenge,

and a decline in the population's standard of living, which can hinder the development of entrepreneurship. Let us add to this the country's ineffective and unstable tax policy, which increases economic instability and forces SMEs and entrepreneurs to "go into the shadows." Earlier, we concluded that SMEs are not interested in entering the extractive industry in Kazakhstan. Therefore, we conclude that GDP growth, which is driven mainly by oil exports and does not contribute significantly from SMEs, cannot have a substantial impact on the initiatives and incentives that encourage entrepreneurs to start a business in Kazakhstan. Moreover, we assume that without the diversification of the national economy, the negative relationship between the "oil economic growth" and actual business development will continue to increase.

The following variable, which has a positive and statistically significant impact on new business creation in Kazakhstan, is trade openness. As the model has shown, further liberalization of trade relations can stimulate the growth of newly created businesses: with a one percent increase in the "Trade openness" variable, the number of registered enterprises increases by 1,168 units. Thus, we conclude that openness to trade and stimulation of foreign economic connections stimulate the creation of new businesses in Kazakhstan. Many studies evidence a positive relationship between business development and market openness conditions; for example, interesting conclusions are found in Salange and Kahyaoğlu (2024) and Mominur et al. (2023). In these works, evidence suggests that free trade and its expansion can stimulate entrepreneurial activity.

Next, we will analyze the influence of political factors estimated in our model. Based on World Bank data for Kazakhstan, such variables are "Voice and Accountability" (X2) and "Rules of Law" (X3). As the model indicates, these variables have a significant impact on the number of newly registered firms in Kazakhstan, but their effect is multidirectional.

It has already been said that business registration directly depends on the quality of public administration and institutions in the country. Some global rankings, such as the Global Business Ready Index (formerly known as the Ease of Doing Business Index until 2021) and the Global Competitiveness Index, include indicators of governance effectiveness that are evaluated based on the quality of institutions, including political ones.

The estimated regression equation revealed that the variable "Voice and Accountability" has a significantly negative impact on starting a business in the country. A minus sign in front of this variable may indicate an antagonistic relationship between the number of new businesses and political factors in the country. However, two facts need to be considered here (going back to the assumptions described above). First, the limited range of values for this indicator, from -2.5 to 2.5, means that even a slight change in the independent variable can have a significant impact on the dependent variable in the equation. On the other hand, the values of this indicator for Kazakhstan in the period under review range from -1.25 to -1.08 points (World Bank, 2024), indicating that it is, a priori, unfavorable for the country and may have a negative impact. Recall that the "Voice and Accountability" indicator, according to the World Bank methodology, measures citizens' perception of the degree of their political freedom (the degree of participation in elections, freedom of the media, etc.),

which can be associated with the level of their trust in the government. Returning to our model, we find that the number of newly registered firms in the country can significantly decrease by 202,603 units if the "Voice and Accountability" variable deteriorates by 1 point.

The values of the "Rules of Law" indicator in the World Bank database for Kazakhstan are also no better, with values ranging from -1.1 to -0.47 in the period under review. However, in contrast to the previous variable, we found a statistically significant positive impact of "Rules of Law" on business creation in Kazakhstan. As calculations have shown, with the improvement of public administration in the country, the number of newly registered enterprises is expected to increase by 39,046 units. In our view, this is a significant positive effect, indicating that the Kazakh government should continue to refine its policy in the country.

We believe that for the development of sustainable business in Kazakhstan, it is necessary to increase the effectiveness of anti-corruption measures and transparency of the business environment, improve the tax code in favor of the development of entrepreneurship and SMEs, pursue an adequate economic policy in the field of inflation management and expand access to bank capital for SMEs, as well as, of course, continue a flexible foreign economic policy adequate to the current complex geopolitical circumstances in the Eurasian region and the increasing global economic challenges due to the tariff war of the American government in recent times.

Conclusion

The authors attempted to create a model to estimate the impact of various factors on new business formation in Kazakhstan. They evaluated three economic and two political indicators, in the authors' opinion, that impact the number of registered enterprises in Kazakhstan. We considered GDP annual growth, FDI inflows, and trade openness as economic variables for the country.

An analysis of theoretical and empirical literature revealed that annual GDP growth, a key indicator of a country's economic activity, should be positively correlated with the number of registered enterprises. As GDP increases, consumer demand rises, and investment opportunities expand. Attracting FDI should stimulate the home country's business development, as it accompanies an influx of capital, technology, and knowledge. Additionally, the higher the level of economic openness, the greater the opportunities for entrepreneurs. Testing our hypothesis 1, that economic growth, trade openness, and foreign direct investment inflows lead to increased entrepreneurial activity and, consequently, the establishment of new enterprises, we obtained different results.

The model results showed that the variables of GDP growth and FDI inflows in Kazakhstan were significant but negative ($p < 0.05$). This does not confirm the theory that they can lead to SME's growth and reject hypothesis 1. Our study revealed that in countries where GDP growth is heavily reliant on mineral resource exports (e.g., Kazakhstan), FDI tends to be directed towards large companies in the extractive sector, rather than fostering SMEs operating in other economic sectors. However, despite the negative impact of GDP and FDI on SMEs' growth, we found that open trade has a positive effect on local businesses, likely by stimulating competition within the country. Model result: The impact was significant and positive ($p <$

0.05), suggesting that Kazakhstan's integration into the global economy contributes to business development and supports hypothesis 1. Overall, we can conclude that hypothesis 1 is partially confirmed.

Regarding worldwide governance indicators, it is worth noting that global investors face less risk in countries with high political stability, which in turn contributes to the development of local businesses. However, regulatory barriers can discourage entrepreneurship in countries with authoritarian regimes, such as Kazakhstan. Model results: a significant adverse effect of the "Voice and Accountability" variable ($p<0.05$) despite a considerable positive impact of the "Rule of Law" variable ($p<0.05$). Hypothesis 2 is also partially confirmed.

On the one hand, the adverse effect may be due to the increased uncertainty for businesses during the period of political instability associated with the transition of power to a new president. Furthermore, the negative impact of the pandemic on SMEs, particularly due to lockdowns, cannot be overstated. All this required the country's new leadership to make tough political decisions in unprecedentedly tricky conditions. Nevertheless, all this together increased economic instability in the country and could not contribute to the development of SMEs. On the other hand, the acceleration of digitalization and the increase in transparency of public services, as well as the decrease in the number of criminal cases initiated against entrepreneurs and businesses, have contributed to improving the efficiency of public administration in Kazakhstan, which may explain the positive impact of this variable.

Nevertheless, the authors draw the authorities' attention to the importance of implementing the president's initiatives to support business, reduce bureaucracy, combat corruption, enhance the business environment, and consistently improve the efficiency of public administration in Kazakhstan. For businesses, it is crucial to operate in a politically stable and predictable environment, which is more important than economic problems in the country.

Thus, our analysis and study made it possible to identify relationships between macroeconomic and institutional indicators and the number of new enterprises in Kazakhstan that were not always apparent. For example, FDI did not show a significant positive impact, which can be explained by its focus on capital-intensive and closed sectors of the economy (oil and mining industries), which are inaccessible to small businesses. At the same time, the "Voice and Accountability" indicator unexpectedly showed a negative relationship with entrepreneurial activity, which may reflect the informal barriers in the management system.

The most stable and predictable factor turned out to be trade openness. Its positive impact confirms the importance of foreign economic relations as a source of incentives for creating new businesses. The negative correlation with GDP growth warrants separate consideration, as it may be linked to the predominance of a large raw materials sector in the economy's structure.

In general, the study's results emphasize that for sustainable entrepreneurship growth, it is essential to stimulate macroeconomic indicators and consistently work on the quality of institutions, transparency of regulation, and access to markets for new players. Significant potential lies in these areas for the development of regions and the long-term enhancement of Kazakhstan's competitiveness.

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