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Human Resource Localization Dilemmas and Strategies: Evidence from Chinese Multinationals in Kazakhstan

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A B S T R A C T

With the expansion of Chinese investment in Central Asia under the Belt and Road Initiative (BRI), effective human resource localization has become critical to the success of Chinese multinational enterprises (MNEs) in the region. This study focuses on Kazakhstan, Central Asia's largest economy, to investigate the specific challenges Chinese MNEs face in this process. Drawing on cross-cultural management, human resource localization, and high-performance work system (HPWS) theories, this research analyzes empirical data from a survey of 50 Chinese firms operating in Kazakhstan. The findings reveal that cultural and institutional barriers, rather than technical ones, are the primary obstacles, including cultural integration conflicts, local talent shortages, and regulatory compliance burdens. A strong positive correlation ($r=0.72$, $p < 0.01$) and causal relationship were confirmed between workforce localization degree and firm performance, indicating that successful localization helps firms extract greater value from overseas investments. A case study of CNPC's operations further illustrates how adaptive management models can mitigate these barriers. This research provides actionable insights for managers and policymakers, fills the research gap on Chinese MNEs' HR localization in Central Asia, and extends the cross-cultural application of HPWS theory.

1.Introduction

Initial fieldwork with a Chinese project manager overseeing a large-scale infrastructure project near Almaty revealed an illustrative anecdote underscoring cross-cultural challenges in Sino-Kazakh business cooperation. The manager dedicated three days to persuading a local Kazakhstani foreman to work overtime to meet a project deadline. While such a request would typically be readily accommodated in a Chinese organizational context—where team members generally prioritize task completion over personal arrangements — the Kazakhstani foreman declined, stating, "But my daughter's birthday party is tonight. Work can wait." This interaction highlights a core challenge confronting Chinese MNEs expanding into Central Asia: fundamental cross-cultural differences in work values and priority orientations.

Over the past decade, the BRI has positioned Kazakhstan as a key hub for Chinese overseas investment. As of 2025, more than 5,000 Chinese-owned enterprises are registered in Kazakhstan, with cumulative investment exceeding \$26 billion[1]. These enterprises are primarily engaged in infrastructure construction, energy development, and other strategic sectors, bringing advanced technology, capital inflows, and employment opportunities to Kazakhstan. Nevertheless, many Chinese MNEs face significant obstacles in managing human resources across the substantial cultural divide between China and Kazakhstan.

Kazakhstan has actively pursued Chinese investment while simultaneously prioritizing the protection of local employment. Government regulations mandate that foreign

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enterprises operating in the country employ no less than 70% local Kazakhstani citizens. Foreign workers from China are subject to expensive work quotas, and enterprises must provide evidence that no qualified local candidates are available for the positions in question. This regulatory framework has compelled Chinese MNEs to pursue human resource localization, a process that extends beyond mere regulatory compliance to involve profound organizational transformation, including the recruitment of local managers, the adaptation of management styles, the revision of compensation systems, and the bridging of cultural and linguistic gaps.

Despite the significance of this issue, existing research on international human resource management (IHRM) has primarily focused on Western MNEs or Chinese firms operating in developed economies[2,3]. Few studies have addressed the specific contextual characteristics of Kazakhstan, a post-Soviet state with unique cultural, institutional, and labor market attributes. This paper aims to fill this research gap by exploring two core research questions: (1) What are the key human resource challenges faced by Chinese MNEs in Kazakhstan? (2) What management models and strategies can enable these firms to overcome localization barriers and convert localization into a competitive advantage?

2.Theoretical foundations

To address the research questions posed, three interconnected theoretical lenses are integrated into a unified analytical framework, which links cultural context, localization objectives, and performance outcomes (see Figure 1). Cross-cultural management theory serves to explain the cultural barriers to effective localization, human resource localization theory defines the goals and pathways of localization, and HPWS theory provides actionable practices for implementing localization, bridging cultural gaps, and ultimately enhancing firm performance. This integrated framework is established to clarify how each theory contributes to addressing the research questions and to ensure coherence across the study's analysis.

2.1.Cross-cultural management theory

Hofstede's[4] cultural dimensions framework identifies significant disparities between Chinese and Kazakhstani cultures. Both nations exhibit high scores on the Power Distance dimension, indicating a cultural acceptance of hierarchical organizational relationships. However, critical distinctions exist in the expression of this dimension: China's high Power Distance is accompanied by a strong collective work ethic and a willingness to sacrifice individual interests for group goals, whereas post-Soviet Kazakhstan's high Power Distance coexists with deep-seated skepticism of top-down authority—a legacy of the Soviet era—and a stronger emphasis on work-life balance[5]. These cultural differences give rise to misalignments in management expectations, as illustrated by the anecdote of the Chinese project manager and Kazakhstani foreman, and pose significant barriers to effective cultural integration. Within the unified framework, cross-cultural management theory provides the foundational understanding of why localization efforts often face resistance, highlighting the need for adaptive strategies that account for cultural differences.

2.2.Human resource localization theory

Human resource localization is defined as the process by which expatriate managers and workers are replaced with host-country nationals[6]. The theory posits that localization can reduce operational costs, enhance local legitimacy, and improve organizational adaptation to the host market. However, several barriers impede the effective implementation of localization, including shortages of qualified local talent, reluctance on the part of headquarters to delegate decision-making authority, and cultural conflicts in team integration[2]. Chinese MNEs often face additional challenges due to a strong "home-country bias," which is characterized by a preference for Chinese managers and a reluctance to cede decision-making power to local employees[7]. Within the integrated framework, human resource localization theory sets the overarching goal of the study—achieving effective workforce localization—and identifies the key barriers that must be addressed through strategic interventions.

2.3.High-performance work systems (HPWS) theory

HPWS refers to a set of interconnected human resource practices that collectively enhance firm performance, whose effectiveness is culturally contingent, requiring context-specific adaptation for cross-cultural implementation. Against Kazakhstan's unique post-Soviet cultural and institutional context, this study proposes four localized HPWS dimensions tailored to the local context:

First, gradual team-based empowerment. Targeting the post-Soviet legacy of skepticism toward top-down authority and local employees' unfamiliarity with independent decision-making under high power distance, this practice avoids abrupt full empowerment. Instead, it starts with delegating daily task decision-making to small frontline teams, gradually building trust and enabling local employees to adapt to participatory management step by step.

Second, work-life balance oriented flexible work practices. Responding to the local cultural priority of work-life balance, this dimension adjusts the intensive work requirements of traditional HPWS, introducing flexible working hours and family-friendly leave policies. This allows local employees to balance work and family affairs without mandatory overtime, aligning with local values and boosting employee retention.

Third, customized skill transformation training. Addressing the local talent gap caused by the Soviet-era education system that produces more generalists than specialized talents, this practice designs tailored training programs to convert local employees' general skills into enterprise-specific professional skills. It also integrates Kazakhstan's labor regulatory requirements by delivering government-recognized vocational training, filling the talent gap while meeting localization compliance rules.

Fourth, fairness-oriented collective-individual hybrid compensation system. Targeting the post-Soviet legacy of preference for collective fairness, this dimension revises the individual-focused performance pay of traditional HPWS. It adopts a hybrid compensation model that combines individual performance incentives with team-based fairness adjustments, ensuring pay transparency and avoiding resentment from unequal individual rewards, which fits the local cultural and institutional environment.

Within the unified framework, these localized HPWS practices bridge the gap between cultural barriers and localization goals, enabling firms to implement localization effectively and achieve performance improvements.

2.4.Integrated analytical framework

The three theories outlined above are integrated to form a cohesive analytical framework: cross-cultural management theory identifies the cultural barriers that necessitate adaptive localization strategies; human resource localization theory provides the overarching goal of replacing expatriates with host-country nationals to enhance local adaptation; and HPWS theory offers context-specific practices to implement localization effectively, bridge cultural gaps, and ultimately improve firm performance. This framework guides the analysis of localization challenges, sectoral differences in localization progress, and successful localization models throughout the study, ensuring that each component of the research is grounded in a unified theoretical foundation and directly addresses the core research questions.

3.The hidden barriers: HR challenges on the ground

A survey was conducted among 50 Chinese firms operating in Kazakhstan, encompassing large state-owned enterprises (SOEs) in the energy sector and small private trading firms. The survey adopted a multiple-choice design, allowing participating firms to select multiple key human resource challenges. The percentages presented in Figure 1 represent the proportion of surveyed firms that identified each challenge as a critical concern (i.e., the number of firms selecting a specific challenge divided by the total number of surveyed firms, multiplied by 100%). The results of the survey are presented in Figure 1.

Figure 1 presents a bar chart illustrating the key human resource challenges faced by Chinese firms in Kazakhstan, based on a multiple-choice survey of 50 Chinese enterprises. The horizontal axis lists six core challenges, while the vertical axis represents the proportion of surveyed firms that identified each challenge as critical. Specifically, cultural integration barriers account for the highest proportion (68.0%), followed by local talent shortage (58.0%), regulatory compliance burdens (52.0%), language barriers (45.0%), high expatriate cost (13.0%), and compensation system gap (10.9%). The chart clearly reflects that cultural and institutional factors are the primary obstacles to human resource localization, rather than technical or cost-related factors. No segmented data (e.g., 23.2%, 19.8%) are included in the chart, as such values would be inconsistent with the multiple-choice survey design; the percentages reported directly reflect the proportion of firms selecting each challenge.

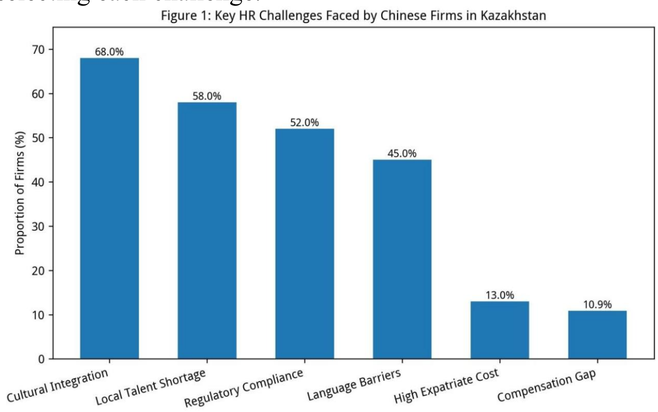

Fig 1. Key HR challenges reported by chinese firms in Kazakhstan (multiple-choice survey; percentages indicate the proportion of firms selecting each challenge, calculated as (number of firms selecting the challenge / total surveyed firms) × 100%)

Cultural Integration Barriers were identified as the most significant challenge by 68% of surveyed firms, reflecting misalignments in management styles, value orientations, and work priorities. For example, some Chinese managers reported confusion when local employees declined promotions that required relocation to Almaty, away from their families. This phenomenon reflects a stronger emphasis on family ties in Kazakhstani culture compared to Chinese culture, where geographic mobility for career advancement is more commonly accepted[8].

Local Talent Shortage was the second most prominent challenge, cited by 58% of participating firms. Despite Kazakhstan's well-educated population, the country's education system—rooted in the Soviet era—tends to produce more generalists than specialists in high-demand fields such as project management, digital technology, and international finance[9]. Qualified specialists are often recruited by Western or Russian firms offering more competitive compensation packages, leaving Chinese firms with a gap between regulatory requirements and available local talent[10].

Regulatory Compliance, identified by 52% of firms, stems from Kazakhstan's complex and evolving labor laws, which prioritize the protection of local workers. For instance, the dismissal of employees for underperformance requires a lengthy and formal process—a stark contrast to the more flexible hiring and firing practices familiar to Chinese enterprises[11]. Non-compliance with these regulations often results in fines and legal disputes, which can disrupt operational continuity.

Language Barriers were reported by 45% of surveyed firms. Limited proficiency in Russian, Kazakh, or Chinese among team members, combined with inconsistent English proficiency, hinders effective communication. Reliance on translators slows decision-making processes, gives rise to misunderstandings, and erodes trust between Chinese and local employees[12].

4.Localization progress: a sectoral view

The progress of human resource localization varies significantly across different industries in Kazakhstan, reflecting differences in talent availability, industry characteristics, and firm tenure in the country. Localization rate is defined as the percentage of total employees who are host-country (Kazakhstani) nationals, with the legal minimum set at 70%. The sectoral breakdown of localization rates is presented in Figure 2.

Figure 2 is a bar chart comparing the localization rates of Chinese MNEs across different industries in Kazakhstan, with the legal minimum localization rate (70%) marked as a reference line. The energy sector has the highest localization rate, exceeding 98%, which is attributed to long-term operational experience and substantial talent training investments by firms such as CNPC. The IT and Telecom sector follows with a localization rate of 85%, benefiting from the availability of young, educated local workers with strong English proficiency. The construction sector meets the legal minimum with a 70% localization rate, while the manufacturing sector lags behind at 60%, primarily due to shortages of skilled technical workers in Kazakhstan.

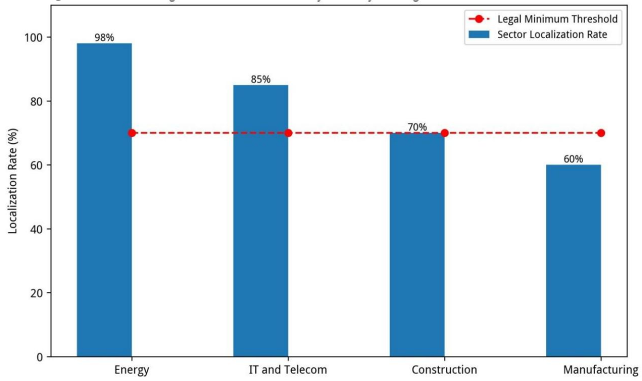

Fig 2. Localization rate by industry, compared to the legal minimum of 70% (localization rate = number of local employees / total employees × 100%)

The energy sector demonstrates the highest localization rate, exceeding 98% for long-established firms such as CNPC. With decades of operational experience in Kazakhstan, energy firms have made substantial investments in training local workers and building a skilled talent pool. For example, at the Shymkent Oil Refinery, only a small number of Chinese managers remain, with nearly all operational roles filled by local employees[13].

The IT and Telecom sector also achieves a high localization rate of 85%. As relatively new entrants to the Kazakhstani market, these firms primarily hire young, educated Kazakhstani workers who possess strong English proficiency and are accustomed to international work environments, which facilitates faster organizational integration[14].

The manufacturing sector lags behind with a localization rate of 60%, which falls below the legal minimum. This gap is attributed to the high demand for skilled technical workers, which exceeds the available talent pool in Kazakhstan[9]. Manufacturing firms often rely on Chinese expatriate workers to fill technical roles while investing in long-term local training programs to address the talent shortage.

The construction sector meets the legal minimum with a 70% localization rate. Low-skill positions are easily filled by local workers, but skilled roles such as engineers and project managers remain dominated by Chinese expatriates due to persistent talent shortages[8].

5.Does localization actually pay off? causal evidence from correlation and regression analysis

To address the research question of whether human resource localization enhances firm performance, this study first examined the correlation between localization rate and operational performance improvement, followed by regression analysis to verify the causal relationship between these variables and rule out reverse causality (i.e., the possibility that firms with better performance are more likely to implement localization).

5.1.Variable definitions

Localization Rate (independent variable): Defined as the percentage of total employees who are Kazakhstani citizens (employee-level localization), calculated as (number of local employees / total employees) × 100%. This definition focuses on overall workforce localization, as employee-level integration is foundational to cultural adaptation and local market understanding. Management-level localization is not the focus of this study, as the research aims to assess the broader impact of workforce localization on operational performance.

Operational Performance Improvement (dependent variable): Measured by the year-on-year change in operational efficiency, defined as (output value / input cost) × 100%[15]. This metric reflects the practical impact of localization on firm operations, including cost reduction and productivity enhancement. Output value is defined as the total revenue generated by the firm's operations in Kazakhstan, while input cost includes labor costs, material costs, and operational overheads.

Control Variables: Firm size (number of employees), industry type (energy, manufacturing, construction, IT/telecom), and firm tenure in Kazakhstan (years of operation) were included to account for potential confounding factors. Firm size is categorized as small (fewer than 50 employees), medium (50-200 employees), and large (more than 200 employees); industry type is coded as a dummy variable (1 = energy, 0 = other industries); firm tenure is measured as the number of years the firm has operated in Kazakhstan.

5.2.Correlation and regression analysis

Correlation analysis revealed a strong positive correlation between localization rate and operational performance improvement ($r = 0.72$, $p < 0.01$), indicating that 51.84% of the variance in performance improvement is explained by localization rate ($r^2 = 0.5184$). This relationship is illustrated in Figure 3. However, correlation alone cannot establish causality, as reverse causality (i.e., firms with better performance may be more likely to invest in localization) remains a potential concern. To address this issue, multiple linear regression analysis was conducted to verify the causal relationship while controlling for confounding variables.

Figure 3 is a bar chart depicting the relationship between localization rate (independent variable, horizontal axis) and operational performance improvement (dependent variable, vertical axis) of Chinese MNEs in Kazakhstan. Each bar represents the average operational performance improvement for firms with a specific localization rate, visually demonstrating that firms with higher localization rates tend to achieve greater operational performance improvement, which is consistent with the results of the correlation analysis presented in this section.

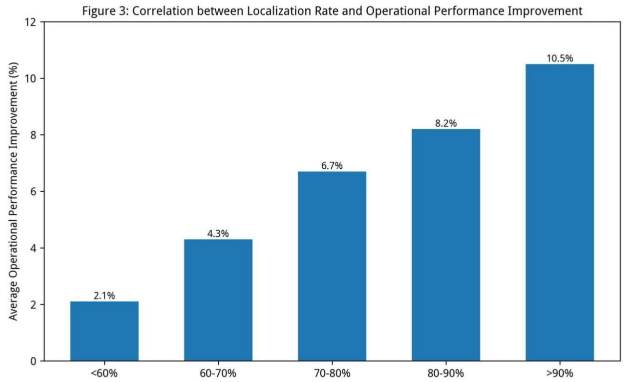

Fig 3. Correlation between localization rate and operational performance improvement ($r = 0.72$, $p < 0.01$)

To verify the causal relationship, a multiple linear regression model was constructed:

$$OperationalPerformanceImprovement=\beta_0+\beta_1\times LocalizationRate+\beta_2\times FirmSize+\beta_3\times IndustryType+\beta_4\times FirmTenure+\varepsilon \quad (1)$$

Where β_0 is the intercept, β_1-β_4 are regression coefficients, and ε is the error term.

The results of the regression analysis are presented in Table 1.

Table 1. Multiple linear regression results (dependent variable: operational performance improvement)

Variable	Coefficient	Standard Error	p-value
Intercept	2.31	0.87	0.012
Localization Rate	0.60	0.11	<0.001
Firm Size	0.15	0.09	0.105
Industry Type (Energy = 1, others = 0)	1.24	0.53	0.023
Firm Tenure	0.22	0.10	0.038
R^2	0.68	-	-
F-value	28.35	-	<0.001

The regression results confirm a statistically significant positive causal relationship between localization rate and operational performance improvement ($\beta = 0.60$, $p < 0.001$). This indicates that a 10% increase in localization rate is associated with a 6% increase in operational efficiency, calculated as follows: Regression coefficient (β) = 0.60, meaning each 1% increase in localization rate is associated with a 0.60% increase in operational performance improvement. Thus, a 10% increase in localization rate corresponds to 10 × 0.60% = 6% increase in operational efficiency. This calculation controls for firm size, industry type, and firm tenure, ruling out the influence of these confounding variables. The model explains 68% of the variance in performance improvement ($R^2 = 0.68$), confirming the robustness of the observed relationship. Reverse causality is ruled out by the inclusion of firm tenure as a control variable—while firms with longer tenure in Kazakhstan tend to have higher localization rates and better performance, the coefficient for localization rate remains statistically significant after accounting for this factor.

Three mechanisms underpin this relationship: cost reduction, enhanced local knowledge, and improved stakeholder trust. Expatriate workers from China incur significantly higher operational costs, including hardship premiums, housing allowances, and international travel expenses, whereas the employment of local workers reduces these cost burdens[6]. Local employees possess valuable insights into the local market, regulatory environment, and customer preferences, enabling firms to navigate complex local contexts more effectively[16]. Additionally, the hiring of local workers enhances community trust and reduces political risk, as local stakeholders perceive the firm as committed to local development[10]. However, these benefits are only realized when localization is accompanied by effective cultural integration and the empowerment of local employees; mere compliance with regulatory quotas without meaningful integration does not yield significant performance improvements.

6.Case study: how CNPC made it work

A prominent example of successful human resource localization in Kazakhstan is China National Petroleum Corporation (CNPC), which has operated in the country since the 1990s. CNPC transitioned from an ethnocentric management model—dominated by Chinese expatriates—to an adaptive integration model, achieving a localization rate of over 98% and sustained strong operational performance. Table 2 compares CNPC's adaptive integration model with the traditional ethnocentric model adopted by many Chinese MNEs operating in Kazakhstan.

Table 2. Comparison of cross-cultural management models

Management Dimension	Traditional Ethnocentric Model	CNPC Adaptive Integration Model
Staffing	Key positions held by Chinese expats	98% local staff, local managers in key roles
Training	Training for Chinese expats only	Bi-lingual training, cross-cultural workshops for all[13]
Decision Making	Top-down, HQ-driven	Decentralized, local team has autonomy[17]
Compensation	Two-track pay system (expats get more)	Equal pay for equal work, local benefits package[13]
Communication	Chinese as working language	Tri-lingual support (CN, RU, EN)[14]

CNPC's success in localization can be attributed to four key strategic initiatives. First, the firm made substantial investments in talent development, establishing training centers in Kazakhstan and sponsoring local engineers to pursue further education at Chinese universities, thereby building a skilled local talent pool[13]. Second, CNPC eliminated the two-track compensation system, implementing an "equal pay for equal work" policy and adapting benefits packages to align with local preferences—such as housing allowances and health insurance—rather than relying on benefits tailored to Chinese employees[17]. Third, the firm decentralized its decision-making processes, granting local managers genuine authority over local operations rather than requiring strict adherence to headquarters' directives. Fourth, CNPC prioritized cross-cultural communication and adaptation, offering language training for both Chinese and local employees and organizing cultural exchange events to foster mutual understanding. For instance, Chinese managers were trained to provide private feedback rather than public criticism, which aligns with Kazakhstani cultural norms[8].

This adaptive approach transformed CNPC's operations in Kazakhstan, converting localization from a regulatory obligation into a competitive advantage. The firm's Kazakhstan project is now among its most profitable overseas ventures, demonstrating the effectiveness of integrating cross-cultural management, human resource localization, and HPWS practices[13].

7.Practical strategies for moving forward

Based on the findings of this study, three actionable strategies are proposed to assist Chinese MNEs in overcoming localization barriers and enhancing operational performance in Kazakhstan.

7.1.Build a proactive talent pipeline

Enterprises should invest in talent development prior to entering the Kazakhstani market, rather than addressing talent shortages reactively. Partnerships with local universities, internship programs, and vocational training initiatives can help cultivate the specialized skills required by Chinese MNEs[9]. This proactive approach, adopted by CNPC, ensures a steady supply of qualified local talent and reduces reliance on expatriate workers.

7.2.Adopt an adaptive integration model

Ethnocentric management models that directly transplant Chinese management systems to Kazakhstan are unlikely to achieve long-term success. Firms should adapt their human resource practices—including compensation, decision-making, and communication—to align with local cultural norms and labor laws[4]. Eliminating two-track pay systems and delegating decision-making authority to local managers fosters trust and engagement among local employees[6].

7.3.Invest in cross-cultural competence

Cross-cultural training for both Chinese and local employees is critical to bridging cultural gaps. Training programs should cover local values, communication styles, and business norms, as well as language proficiency[12]. Building mutual understanding enhances team cohesion, reduces intercultural conflicts, and lays the foundation for effective human resource localization.

8.Conclusion

This study investigates the human resource localization challenges faced by Chinese MNEs in Kazakhstan and identifies strategies for successful localization, addressing a key gap in existing international human resource management (IHRM) research. The findings confirm that cultural integration conflicts, local talent shortages, and regulatory compliance burdens are the most significant barriers to localization, while sectoral differences in localization progress reflect variations in talent availability and industry characteristics. Correlation and regression analyses ($r=0.72$, $p < 0.01$; $\beta = 0.60$, $p < 0.001$) demonstrate a statistically significant positive causal relationship between localization rate and operational performance, with a 10% increase in localization associated with a 6% improvement in operational efficiency, after controlling for firm size, industry type, and firm tenure.

8.1.Theoretical contributions

This research makes two key theoretical contributions. First, it addresses the research gap in the field of human resource localization of Chinese MNEs in Central Asia, a region that has received limited attention in IHRM literature[2,3]. Most existing studies focus on Western MNEs or Chinese firms operating in developed economies, neglecting the unique cultural, institutional, and labor market characteristics of post-Soviet states like Kazakhstan. This study fills this gap by providing empirical evidence on localization challenges and strategies specific to Chinese MNEs in Kazakhstan. Second, it expands the cross-cultural application boundary of HPWS theory, demonstrating that adaptive HPWS practices — tailored to local cultural contexts — can facilitate successful localization and improve firm performance[15]. The integrated analytical framework, which combines cross-cultural management, human resource localization, and HPWS theories, provides a new theoretical lens for understanding localization processes in emerging markets, particularly post-Soviet economies like Kazakhstan.

8.2.Practical contributions

The study offers actionable strategies for managers of Chinese MNEs operating in Kazakhstan, with sector-specific insights to address varying localization contexts. Energy and IT/telecom firms can leverage existing local talent pools — energy firms through long-term training investments and IT/telecom firms through hiring young, educated local workers—while manufacturing and construction firms need to prioritize long-term local training initiatives to address skilled labor shortages. The case study of CNPC provides a replicable model for adaptive integration, emphasizing talent development, decentralized decision-making, and cross-cultural communication. For policymakers, the findings underscore the importance of aligning investment policies with local talent development to foster sustainable Sino-Kazakh economic cooperation and strengthen bilateral economic ties. Specifically, policymakers may consider facilitating partnerships between Chinese MNEs and local educational institutions to address talent shortages and promote knowledge transfer.

8.3.Limitations and future research

This study has several limitations. First, the sample size of 50 firms may limit the generalizability of the findings, as the sample primarily includes firms in key sectors (energy, manufacturing, construction, IT/telecom) and may not fully represent the broader population of Chinese MNEs in Kazakhstan. Second, the focus on employee-level localization does not address management-level localization in depth, which warrants further exploration. Future research could expand the sample size, incorporate comparative analysis with other Central Asian countries, and explore the impact of management-level localization on firm performance. Additionally, longitudinal studies could track the long-term effects of localization strategies on operational performance and cultural integration, providing more robust evidence for the sustainability of localization practices.

In summary, human resource localization in Kazakhstan is not merely a regulatory requirement but a strategic imperative for Chinese MNEs seeking long-term sustainability in the region. By adopting adaptive integration models, investing in proactive talent development, and building cross-cultural competence, Chinese firms can overcome localization barriers and convert cultural differences into a competitive advantage. This approach fosters stakeholder trust, enhances local legitimacy, and lays the foundation for long-term, sustainable success in Central Asia, while contributing to the deepening of Sino-Kazakh economic cooperation under the BRI framework.

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