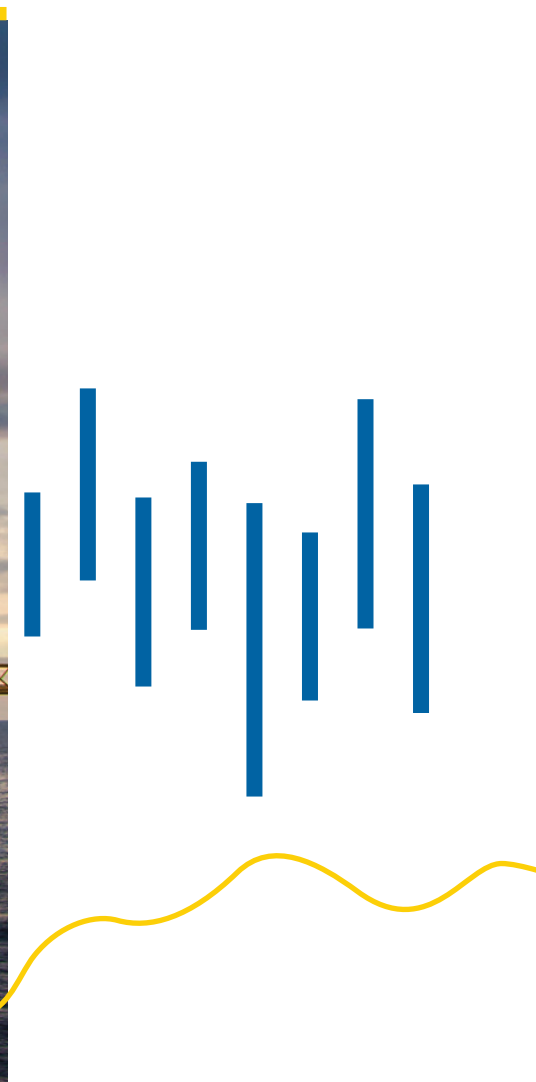


EAEU AND EURASIA: MONITORING AND ANALYSIS OF DIRECT INVESTMENTS 2016



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This report presents the new findings of a research project concerned with the monitoring of direct investments in Eurasia which complements the monitoring of mutual investments in the CIS, another project underway since 2011. The research presents the analysis of direct investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia. The authors also review reciprocal direct investments made by Austria, the Netherlands, Turkey, the United Arab Emirates, Iran, India, Singapore, Vietnam, China, South Korea, and Japan in the eight CIS countries listed above. Based on statistical data collected in the course of monitoring, the authors provide detailed information on the evolution, actual geographic localization, and sectoral structure of the capital investments under review.

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ACRONYMS AND ABBREVIATIONS

CBR – Central Bank of the Russian Federation (Bank of Russia)

DIM-Eurasia – monitoring of direct investments by EAEU countries, Azerbaijan, Tajikistan, and Ukraine in Eurasian countries outside the CIS and Georgia

EAEU – Eurasian Economic Union

EDB – Eurasian Development Bank

EU – European Union

FDI – foreign direct investment

IT – information technologies

JV – joint venture

LNG – liquefied natural gas

MIM CIS – monitoring of mutual investments by CIS countries and Georgia

OECD – Organization for Economic Co-operation and Development

RAS IMEMO – Primakov National Research Institute of World Economy and International Relations of the Russian Academy of Sciences

RDIF – Russian Direct Investment Fund

SOCAR – State Oil Company of the Azerbaijan Republic

SOFAZ – State Oil Fund of the Republic of Azerbaijan

TANAP – Trans-Anatolian Natural Gas Pipeline

TNC – transnational corporation

UNCTAD – United Nations Conference on Trade and Development

Summary

The DIM-Eurasia Database is an ongoing project of the EDB Centre for Integration Studies. It contains detailed information on FDI stock related to projects implemented by investors from EAEU countries, Azerbaijan, Tajikistan, and Ukraine in Eurasia outside the CIS and Georgia. The database also records projects implemented by investors from Austria, the Netherlands, Turkey, UAE, Iran, India, Singapore, Vietnam, China, South Korea, and Japan in the eight post-Soviet countries listed above.

Maintained since 2013 with diverse data obtained from publicly available sources, the DIM-Eurasia Database is generated “from the bottom up,” meaning that its creators rely on corporate statements and other primary information. As a result, DIM-Eurasia makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations” as well as reinvested foreign profits. It is different from official statistics in this respect.

The DIM-Eurasia Database features data critical for successful comprehensive analyses of investment projects, including:

- investor country,
- recipient sector and industry (according to the two-level classification system developed within the framework of the project),
- investor company,
- FDI recipient region,
- recipient facility,
- nature of investment (e.g., greenfield project or acquisition),
- project commencement year (project completion year for completed investments),
- FDI year-end value in 2008–2015, and
- additional comments and sources of information.

The applied nature of the database makes it relevant both for researchers and for EDB member state government bodies, which seek with increasing frequency to acquire useful supplementary DIM-Eurasia-based information and analytical reviews.

- **FDI stock of Austria, the Netherlands, Turkey, UAE, Iran, India, Singapore, Vietnam, China, South Korea, and Japan in EAEU countries, Azerbaijan, Tajikistan, and Ukraine continues to grow.** By the end of 2015, its accumulated volume had increased by 4% and reached \$105 billion.
- **China continues to expand its economic presence in EAEU countries and Central Asia, retaining its leadership among Asian countries in terms of FDI stock in the region.** At the end of 2015, FDI stock accumulated by Chinese TNCs in the five EAEU countries, Azerbaijan, Tajikistan, and Ukraine amounted to **\$27.4 billion** (Figure A). The largest share of Chinese FDI stock in EAEU countries is traditionally concentrated in Kazakhstan, where it has reached \$21 billion. For Chinese investors, Oil and Gas remains the main target sector in that country, along with the Kazakh Transportation sector (Trunk Pipelines).
- **In the Russian market, the level of activity displayed by Chinese investors is still not very high.** At the beginning of 2016, Chinese FDI stock in Russia amounted to \$3.4 billion, a 1.4% decrease year-on-year (following withdrawal of the Chinese investors from Uralkali, and acquisition by Sinopec of a relatively smaller share in Sibur). The relative inactivity of Chinese TNCs may be attributed to a number of factors. First, a considerable number of major transactions announced in and prior to 2014 are still awaiting their final implementation (we only keep records of investments which have been actually realized).

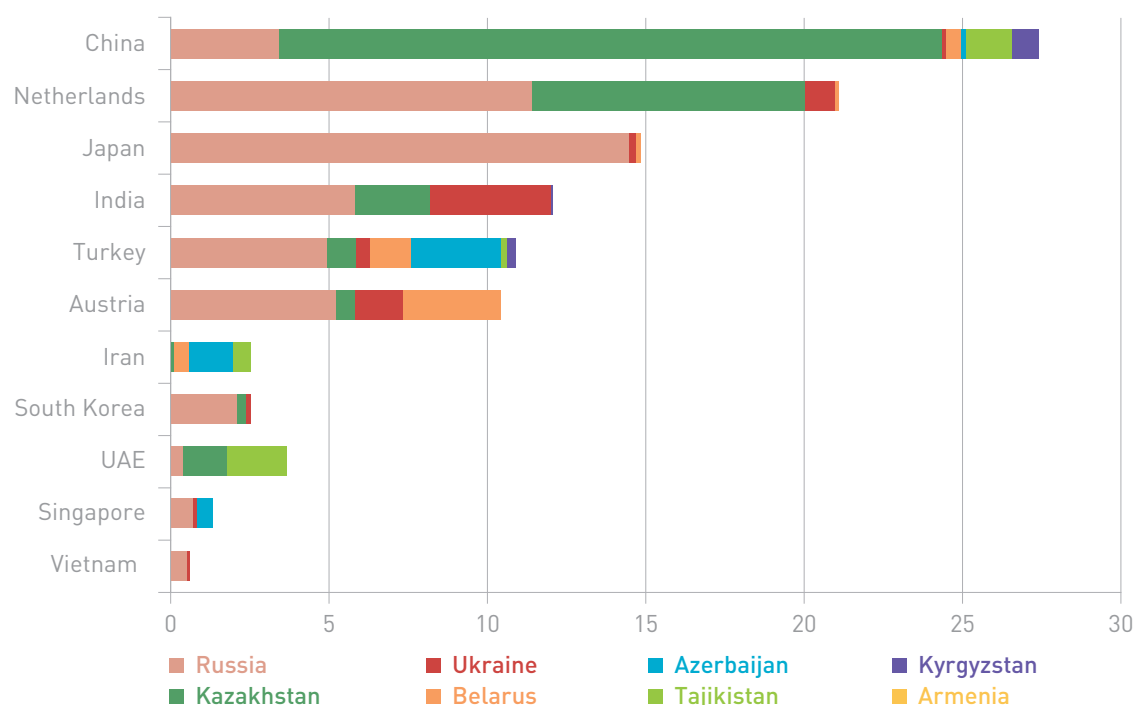


Figure A.
Geographical
Priorities of Eurasian
Investors in the
EAEU, Azerbaijan,
Tajikistan, and
Ukraine at the End
of 2015 (FDI Stock,
\$ billion)

Second, Chinese companies have assumed a wait-and-see stance to avoid the possible EU and US sanctions. Third, a number of Chinese investors are waiting for more lucrative offers.

- **With the activation of the Chinese development framework called “One Belt, One Road,” investors from the PRC are beginning to display interest in EAEU sectors not related to hydrocarbon production.** In 2015, 52 projects were selected within the framework of the joint Sino-Kazakh Investment Program. If all those projects are implemented, total investments will amount to about \$22 billion. It is expected that the bulk of investments will be made by Chinese companies and financed with the proceeds of loans to be extended by Chinese development institutions and the Silk Road Fund.
- **Japan has the largest FDI stock in Russia among Asian countries.** Despite the devaluation of the Russian ruble, Japanese FDI stock in Russia has remained virtually static at \$14.5 billion, with 70% directed into the Russian Oil and Gas sector. As for the other EAEU countries and Central Asia, Japanese companies have assumed a wait-and-see stance and are now busy sizing up the most promising economic projects. **The interests of South Korean and Vietnamese TNCs in the post-Soviet area are also linked primarily to Russia.**
- **Despite the recent crisis in relations with Russia and the worsening macro-economic indicators in most CIS countries, among Asian countries Turkey remains one of the largest FDI exporters into the countries of the post-Soviet area according to available data.** At the beginning of 2016, total Turkish FDI stock in EAEU countries, Ukraine, Azerbaijan, and Tajikistan amounted to \$10.6 billion, a less than 1% decrease relative to 2014. Stability of investment flows originating in Turkey is largely attributable to the high country-diversification of Turkish FDI. Projects with Turkish capital participation were registered in all of the countries listed above, with the exception of Armenia. Russia accounts for about half of presented transactions, and almost 45% of Turkish FDI stock. **One of the important features of Turkish FDI is its impressive sectoral coverage:** capital of Turkish origin is represented in almost all recipient sectors (Figure B). The largest FDI inflow for 2015 was registered in the Oil and Gas sector (24.4% of the total investment); the Agriculture and Food Products sector came in second position (20.7%), and Construction came in third position (16.8%). This is the key difference between Turkish capital and, for example, Chinese or Japanese capital.
- **Expansion of direct investors from the UAE in the post-Soviet area is only beginning.** Most interest towards capital investments into EAEU economies is displayed by direct investment funds — primarily in Russia and Kazakhstan. UAE investment policy reflects the country’s main foreign policy strategic vectors: strengthening of the role that the UAE plays in the Muslim world, and expansion of its economic and trade influence in the capacity of an active player in the areas of marine and river transport, a reliable banking partner which remains a guardian of Islamic banking and finance traditions, and a quality manufacturer of halal products.

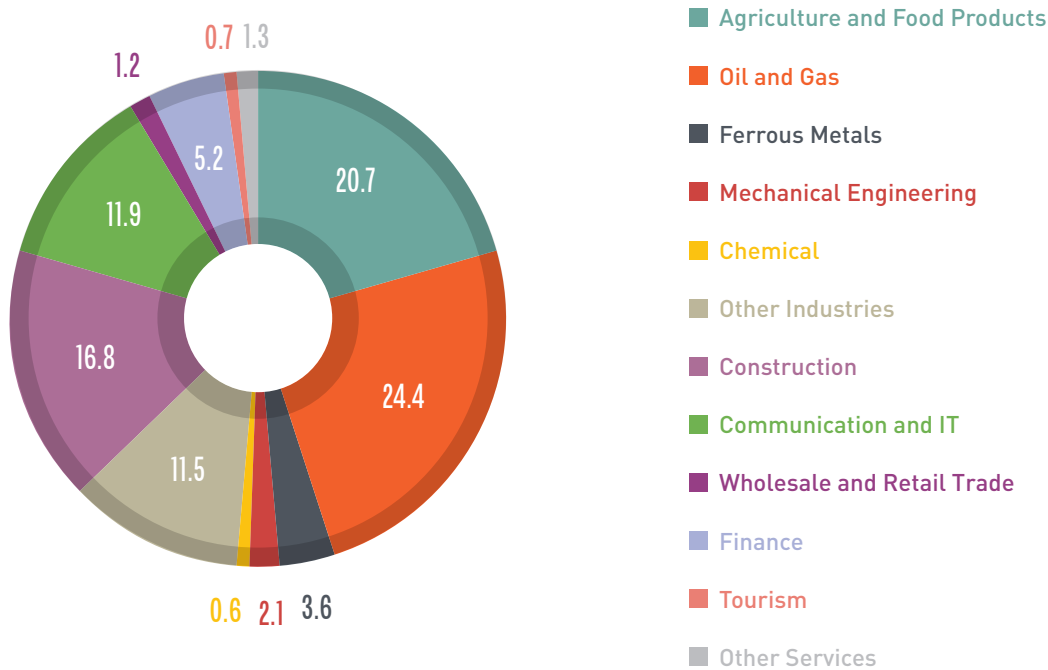
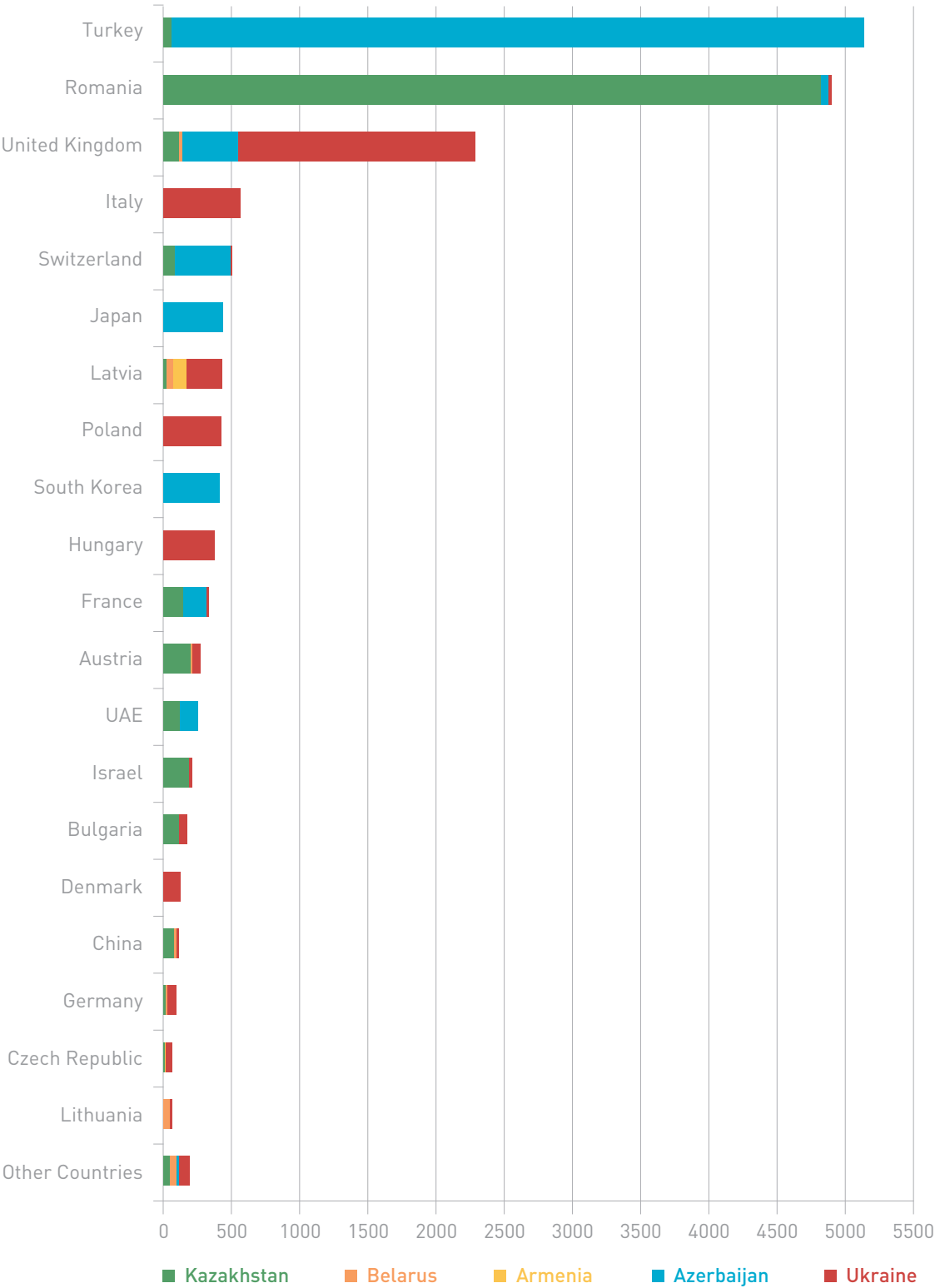


Figure B. Sectoral Structure of Turkish FDI Registered in the DIM-Eurasia Database (End of 2015, %)

- **Of the Asian countries under review, Singapore comes next to last in terms of FDI stock in the CIS.** By the end of 2015, Singaporean FDI stock approached \$1.3 billion — a figure which is more than three times higher than it was at the end of 2011, and more than 10 times higher than it was at the end of 2008. The growing interest that Singaporean TNCs show in the CIS — not only Russia, but also Azerbaijan, Ukraine, and other countries — creates an opportunity to realize, over the course of the next several years, a huge potential in terms of attracting additional foreign capital investments. Judging by the amazing technological breakthroughs made by that Southeast Asian island state, these will probably concentrate on the most sophisticated industries. For now, we can single out Singaporean FDI in shipyards manufacturing offshore oil and gas production equipment.
- **Official Dutch FDI statistics and the relevant records from the DIM-Eurasia Database differ by a factor of almost 5, which underlines the role of that country as a “trans-shipping destination” for funds owned by CIS companies and used for investing in third countries.** The presence of Dutch “real” capital in the region in 2015 was qualified by the impact of the crisis. Considerable devaluation of national currencies of recipient countries led to impairment of certain assets. As a result, total Dutch FDI in the countries of the region in 2015 did not fall below the 2014 level only due to acquisition of a stake in the Kazakh Karachaganak project.

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Figure C. Main Geographical Priorities of Post-Soviet Area FDI in Eurasian Countries Outside the CIS at the End of 2015 (\$ million)



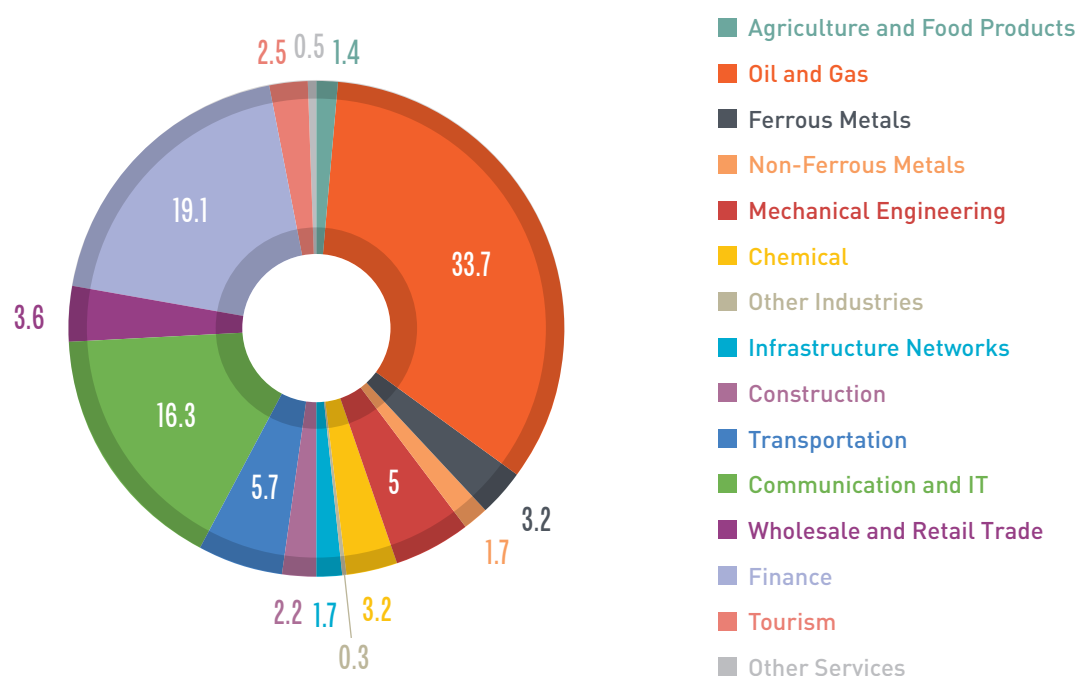


Figure D. Sectoral Structure of Russian FDI Registered in the DIM-Eurasia Database (End of 2015, %)

- **In 2015, Austrian FDI in EAEU countries, Azerbaijan, Tajikistan, and Ukraine decreased by more than 10% for the first time in eight years.** The main reasons for the decrease include devaluation of the Russian ruble, general decline of the Russian economy, and the political and economic situation in Ukraine. At the same time, by the end of 2015 Austrian FDI in Belarus went up by 9% and half of the existing Austrian projects received new capital infusions. The most attractive sectors of the Belarus economy for Austrian companies are Wood Processing, Communication and IT, and Construction.
- **Sustainable growth of FDI stock accumulated by the EAEU, Azerbaijan, Tajikistan, and Ukraine in the countries of the Eurasian continent continues.** In 2015, that indicator went up by 15.8%, or by \$13.5 billion. In 2008–2015, the aggregate FDI stock owned by CIS countries under review has grown by a factor of 2.4. The best performers are Russia and (outside the EAEU) Azerbaijan. In terms of geographical priorities, investors apparently prefer European countries (Figure C).
- **So far, there has been no material shift of Russian FDI to the East.** By the end of 2015, the share of Russian FDI stock in EU countries amounted to 62% of the total direct capital investments in Eurasia. The aggregate share of Russian corporate investments in Asia has decreased from 31% in 2011 to 26.7% at the end of 2015. To a large degree, the unsustainable nature of Asian investments is attributable to international political conflicts (Turkey, Middle East).

- **The Oil and Gas sector traditionally accounts for the largest share in the sectoral structure of Russian FDI exported to Eurasian countries** (Figure D). The share of Oil and Gas in Russian FDI stock increased from 25.8% at the end of 2008 to 33.7% at the end of 2015. The second position is held by **Finance**, with an increase in share from 13.4% to 19.1% over the course of seven years. The **Communication and IT** sector also stands out; during the same seven-year period, its share increased from 12.5% to 16.3%.
- **Of the EAEU countries, Kazakhstan comes second after Russia in terms of capital export to Eurasian countries.** According to our data, in 2015 Kazakh FDI stock in Eurasian countries outside the CIS reached almost **\$6 billion**. EU countries remain the main recipient of Kazakh direct capital investments, with 90.5% of total Kazakh FDI going to Eurasian countries. The Oil and Gas sector remains Kazakhstan's key international specialization sector, with consistently more than a 50% share of total FDI. Wholesale and Retail Trade has the second position.
- **Azerbaijan was one of the first of post-Soviet countries to make significant investments abroad.** When monitoring Azerbaijani FDI in Eurasian countries outside the CIS, we have identified more than 20 projects with an aggregate 2015 year-end value of \$7.2 billion, an increase by a factor of 4.2 compared to the 2008 year-end level. The dominant position of Turkey in the geographical structure of Azerbaijani FDI can be attributed to investments made by the State Oil Company of the Azerbaijan Republic (SOCAR).

Introduction

In late 2011, within the framework of the CIS mutual direct investment monitoring project implemented by the EDB Centre for Integration Studies in partnership with RAS IMEMO, a new methodology was developed to enable a more precise assessment of FDI scope and structure than that offered by the central banks of post-Soviet countries. In 2013, the MIM CIS methodology (which by then had already proven its efficiency and effectiveness) was transferred to the second partner project, DIM-Eurasia.

Initially, the project envisioned would monitor direct investments by Russia, Belarus, Kazakhstan, and Ukraine in the countries of Europe and East Asia (EDB Centre for Integration Studies, 2013). In 2014, the project team was already reviewing capital investments made by investors from the four countries listed above in all Eurasian countries outside the CIS and Georgia. Additionally, the project team initiated a review of reciprocal direct investments by investors from certain other countries critical for understanding the true potential of Eurasian corporate integration (EDB Centre for Integration Studies, 2014). In 2015, the DIM-Eurasia project team increased the number of CIS countries under review (EDB Centre for Integration Studies, 2015). Finally, in 2016 the project team reviewed all CIS countries important for Eurasian FDI growth — the five EAEU countries, Azerbaijan, Tajikistan, and Ukraine. Of the Asian countries outside the post-Soviet area, almost all significant sources of direct capital investments have already been studied, including Turkey, UAE, Iran, India, Singapore, Vietnam, China, South Korea, and Japan. As for the EU, in the DIM-Eurasia Database it is still represented by Austria and the Netherlands, two countries often used by third-country TNCs as “trans-shipping destinations” for subsequent CIS investments but which also have their own significant FDI in the post-Soviet area.

Despite the ongoing expansion of the DIM-Eurasia geographical footprint, its methodology for collecting FDI data (which was originally developed within the framework of the MIM CIS project) remains generally unchanged (for more details, see EDB Centre for Integration Studies, 2012). First, each FDI is registered based on where the relevant assets are actually located rather than on the first formal recipient of capital investments (often an off-shore entity). This method is already used quite frequently in OECD countries. Second, corporate statements are subject to a more rigorous (compared to CBR) analysis covering (to the extent possible) all projects where FDI stock exceeds \$3 million. In addition, smaller projects may be recorded to reflect typical investment transactions in sectors characterized by low capital intensity. An exception was made only for investments in real properties, as reduction of the threshold would have materially impaired representativeness of the database (indeed, in most cases it

is physically impossible to collect information on the overwhelming majority of transactions which involve foreign sales of smaller apartments and houses). Third, DIM-Eurasia permits a more extensive use of indirect FDI stock assessment methods in situations where official data on completed investment projects are not available.

The general structure of the report is consistent with the previous publications. As before, the first part presents a general description of the database. The second part focuses on the distinguishing features of post-Soviet area FDI in Eurasian countries. The third part of the report is dedicated to reciprocal FDI flows from Eurasian countries to EAEU countries, Azerbaijan, Tajikistan, and Ukraine.

1. Description of the DIM-Eurasia Database

Monitoring and analysis of direct investments by EAEU countries and other states of the Eurasian continent (DIM-Eurasia) is an ongoing project of the EDB Centre for Integration Studies on which the RAS IMEMO research team has been working since 2013.

Due to further expansion of the DIM-Eurasia Database geographical footprint, the number of projects reviewed in this report has increased vis-à-vis its previous version. At this time, we keep records for 1,155 projects, including 837 projects with FDI in excess of \$3 million (since 2016, this is the minimal threshold which triggers inclusion of a project into the DIM-Eurasia Database; previously we used a higher threshold of \$10 million, but this year we have synchronized with the MIM CIS Database).

Of the projects included in the database, 45% (522 projects, including seven joint projects with the participation of investors from the other CIS countries) involve Russian companies and account for 40% of total recorded FDI stock. Projects with inbound FDI (473) represent 41% of the total number of projects and 51.5% of the total investment stock. A two-level sectoral classification comprising 15 sectors and more than 90 industries has been developed to record the sectoral FDI structure within the framework of the two neighboring EDB projects: MIM CIS and DIM-Eurasia. The list of sectors has not changed over the years, but the list of industries is regularly updated as new investment projects are entered into the database. Updates are triggered by new entries into both the MIM CIS Database (EDB Centre for Integration Studies, 2016) and the DIM-Eurasia Database. In particular, this year we refined the structure of the Agriculture and Food Products sector by creating a new industry: “Tea and Coffee Processing,” a plant products processing spinoff reflecting the fact that raw materials were imported from abroad. In the Construction sector, we added an industry called “Technology Parks”; the Other Industries sector was complemented with “Leather Industry,” and the Other Services sector, with “Entertainment” (clubs, gaming establishments).

It should be stressed that the key feature of the database is that it enables a geographical analysis of direct investments based on actual asset locations. In this respect, DIM-Eurasia statistics have a clear advantage over the data collected by the CBR and many other official bodies keeping records of FDI in the post-Soviet area. The overwhelming majority of indirect FDI stock assessment methods used in the MIM CIS Database and the DIM-Eurasia Database are identical. For example, assessment of the scope of investments in gas station, shop and restaurant networks is based on OECD recommendations on the use of data regarding FDI into homogenous facilities. When assessing FDI in telecommunication companies and certain processing facilities which extensively use mark-to-market accounting (whether due to massive reinvestment of profits or accelerated depreciation), we use assessment methods which rely on the value of fixed assets. A more detailed description of industry-specific FDI assessment methods relevant for the DIM-Eurasia Database is provided below in paragraph 1.2.

1.1. Scale and Evolution of FDI Recorded in the DIM-Eurasia Database

The total value of direct investment stock recorded in the DIM-Eurasia Database at the end of 2015 exceeded \$204.5 billion. Over the seven-year observation period (from the end of 2008 to the end of 2015), that indicator has more than doubled, demonstrating sustainable growth all along the way. The smallest FDI stock increase was registered in 2014 (+2.6%). In 2015, total FDI stock went up by 9.3% (see Table 1).

Investments by the EAEU countries, Azerbaijan, and Ukraine in Eurasian countries outside the CIS and Georgia accounted for 48.5% of total FDI registered in the DIM-Eurasia Database (we did not identify any Tajik projects with FDI of at least \$3 million outside the post-Soviet area). Over the seven-year observation period, the aggregate FDI stock owned by CIS countries under review has grown by a factor of 2.4. The best performers are Russia and (outside the EAEU) Azerbaijan. Cf.: over the same period of seven years, FDI by Austria and the Netherlands has increased by a factor of 1.78, while FDI by the nine Asian countries under review has increased by a factor of 1.9.

Table 1. DIM-Eurasia Database Parameters, 2008–2015

Indicator	2008	2009	2010	2011	2012	2013	2014	2015
Total FDI stock recorded in DIM-Eurasia Database, year-end, \$ billion	96.6	112.4	125.5	146.3	166.4	182.5	187.1	204.5
FDI stock accumulated by EAEU countries, Azerbaijan, Tajikistan, and Ukraine in Eurasian countries outside the CIS and Georgia, \$ billion	40.9	46.0	52.7	66.7	77.1	84.8	85.7	99.2
<i>FDI stock accumulated by EAEU countries in Eurasian countries outside the CIS and Georgia, \$ billion</i>	36.2	41.3	47.8	61.4	70.5	77.2	76.0	88.2
<i>FDI stock accumulated by Russia in Eurasian countries outside the CIS and Georgia, \$ billion</i>	32.7	36.7	43.0	56.6	65.2	71.2	69.5	81.9
FDI stock accumulated by Austria and the Netherlands in EAEU countries, Azerbaijan, Tajikistan, and Ukraine, \$ billion	17.7	19.2	22.5	25.3	27.9	28.6	28.1	31.6
FDI stock accumulated by Turkey, UAE, Iran, India, Singapore, Vietnam, China, South Korea, and Japan in EAEU countries, Azerbaijan, Tajikistan, and Ukraine, \$ billion	38.1	47.3	50.3	54.3	61.4	69.0	73.3	73.8
<i>FDI stock accumulated by China in EAEU countries, Azerbaijan, Tajikistan, and Ukraine, \$ billion</i>	11.1	16.9	18.3	20.3	21.8	26.3	27.7	27.4
<i>FDI stock accumulated by Japan in EAEU countries, Azerbaijan, Tajikistan, and Ukraine, \$ billion</i>	9.1	10.0	10.6	11.3	13.3	14.6	14.7	14.7

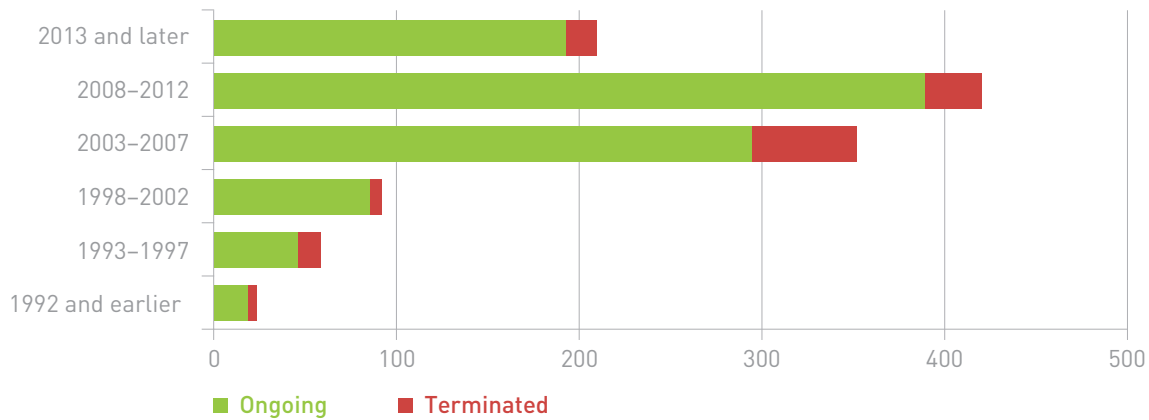


Figure 1. Distribution of DIM-Eurasia Database Projects by the Time of Commencement

The largest absolute increases of FDI stock in EAEU countries, Azerbaijan, Tajikistan, and Ukraine were posted by China (by \$16.3 billion, or almost 2.5-fold) and Japan (by \$5.6 billion, or more than 1.6-fold). The largest relative increases of FDI stock were shown by the UAE and Singapore – from \$50 million to \$1.75 billion and from \$150 million to \$1.3 billion, respectively.

In terms of allocation of FDI stock registered in the DIM-Eurasia Database with a breakdown by recipient countries, the leading position is held by Russia with \$49 billion worth of FDI at the end of 2015. This represents 46.5% of all recorded FDI in the eight CIS countries (total: \$105.4 billion), and almost 54% of total FDI stock accumulated by the 11 Eurasian countries under review in the EAEU (total: \$91 billion). Of the other CIS countries, the highest aggregate FDI originating from Austria, the Netherlands, and nine Asian countries was recorded for Kazakhstan (\$35.2 billion) and Ukraine (\$7.3 billion). They were followed by Belarus (\$5.4 billion), Azerbaijan (\$5.2 billion), Tajikistan (\$1.9 billion), and Kyrgyzstan (\$1.2 billion). Interestingly, the lowest inflow of FDI (\$56 million, primarily from the neighboring Iran) was posted by Armenia.

Of the total \$99.2 billion of FDI stock accumulated by EAEU countries, Azerbaijan, Tajikistan, and Ukraine in Eurasian countries outside the post-Soviet area, the top ten accounted for \$75.1 billion, or more than three-quarters. The leading investment destinations were Turkey (\$15.4 billion), Germany (\$15 billion), and Italy (\$13.1 billion). They were followed by the United Kingdom (\$7.6 billion), Romania (\$6.2 billion), Bulgaria (\$4.6 billion), Switzerland (\$4.6 billion), Iraq (\$4.3 billion), Austria (\$2.2 billion), and Vietnam (\$2.1 billion). The most notable European recipients of the FDI from post-Soviet countries are France, Poland, Belgium, the Netherlands, Serbia, Latvia, and the Czech Republic; and the most notable Asian recipients are India and Bangladesh (each in excess of \$1 billion). It should be especially noted that China received merely \$444 million, less than the neighboring Mongolia (\$515 million) and almost as much as Japan (\$439 million) and South Korea (\$419 million), both countries being rather impervious for foreign TNCs.

All in all, the DIM-Eurasia Database contains records on 1,030 ongoing projects and 125 terminated projects (see Figure 1). Notably, the number of new transactions registered during the five years preceding the global economic crisis turned out to be lower than in 2008–2012. Let us stress once again that a trend that we noted earlier still prevails: the number of terminated projects in the DIM-Eurasia Database is comparatively lower than in the MIM CIS Database. This is partially attributable to the fact that investment projects initiated by Eurasian companies willing to invest in the post-Soviet area are generally better substantiated. (Incidentally, about half of the terminated projects were related to activities of Russian companies outside the CIS.)

1.2. Comparison of Heterogeneous Information in FDI Analysis

Including capital investment projects related mostly to developing and post-socialist countries in the DIM-Eurasia Database gives rise to certain methodological difficulties. For example, the use of market capitalization to measure changes in the value of acquired assets — and this is one of the core methods listed in OECD recommendations (OECD, 2008) — is possible only in a few isolated cases (the most noteworthy being FDI by the Russian RENOVA Group in Switzerland).

Nevertheless, sufficiently accurate data could be obtained for almost all countries on investments in the banking sector, which at the end of 2015 totaled more than \$14 billion (69 transactions with non-zero investments and about two dozen terminated projects). The banking sector is special in that all key asset value indicators are formalized, while charter capital and equity can be used as more or less reliable benchmarks for M&A transactions. This enables a much more accurate valuation of foreign bank assets than in most other industries where key value drivers include sales, investor expectations, competition, etc. In the banking sector, asset values are affected primarily by charter capital growth and exchange rate fluctuations.

Notably, no new banking investment projects were posted to the DIM-Eurasia Database by the end of 2015, with the exception of one small Turkish bank in Azerbaijan. On the one hand, this can be explained by the shortage of investment capital experienced by most banks; on the other hand, it can be ascribed to the unfavorable political climate making some recipient countries, especially EU countries, overly apprehensive when dealing with Russian investors. Generally, foreign expansion of banks from the EAEU and other CIS countries into Eurasia is characterized by its sustainable, steady nature and the predominance of the largest systemically important banks. As for inbound FDI, the list of investors includes both well-known banks (for example, the Austrian Raiffeisen and certain leading Turkish and Chinese banks) and smaller financial institutions.

The Agriculture and Food Products sector continues to generate the most FDI valuation problems. It is one of the most popular FDI sectors in Eurasia with the highest growth potential. This is due to the continued need to achieve national and regional food safety, or retain that safety at a sufficiently high level. This strategic

task has not yet been resolved by a number of countries, or its resolution continues to heavily rely on importation of food and/or food technologies and means of production (biological, chemical, technical, etc.).

Inasmuch as developing countries both export and import massive amounts of capital, data on the scale and evolution of FDI in the Agriculture and Food Products sector of Eurasian countries are very hard to structure and compare, and assessment of the FDI's economic efficiency (let alone social or environmental efficiency) presents huge challenges on regional, national or macro-regional levels. There are five main groups of methodological problems related to valuation of FDI in the Eurasian Agriculture and Food Products sector:

- It remains difficult to assess the scale and legal forms of FDI targeting the key agricultural production resource: farmland. In most countries, sale of such land to foreigners is either prohibited or restricted; accordingly, foreign direct investors normally resort to long-term leases (with terms of up to 50 years) or acquire equity stakes in national companies with considerable land assets, and generally refrain from flaunting specific land assets which are used to secure their investment projects. Additionally, any relaxation of restrictions on FDI in farmland (often the last meaningful competitive advantage available to the local population) causes social discontent which sometimes escalates into open public protest (as happened in Kazakhstan and Kyrgyzstan when the authorities attempted to liberalize allocation of lands to Chinese investors).
- It is difficult to assess quantitative and qualitative characteristics of large-scale FDI in animal breeding. In many cases, there remain uncertainties regarding allocation of forage lands, acquisition of pedigree and commercial livestock, and resolution of environmental, veterinary, and sanitary issues.
- FDI in certain industrial facilities (greenhouses or food industry plants, including manufacturers of alcohol and tobacco products) is relatively more transparent, and their value is easier to determine. Such projects usually dominate agricultural FDI in terms of their number (and, for the time being, in terms of their aggregate value).
- It is not always possible to fully assess the distribution of products manufactured at facilities created or modernized with FDI between domestic and foreign markets, or estimate the level of efficiency of such distribution from the viewpoint of FDI recipient countries. This renders basically useless many indirect capex assessment methods based on analysis of the structure of production and sale proceeds of facilities created with funding provided by foreign TNCs. Additional difficulties emerge in situations where certain investment projects are delayed, "frozen," or completely terminated for non-apparent reasons, or when information on completed projects is not readily available.
- Finally, in many investment projects, it is difficult to clearly identify the actual FDI donors and the ultimate beneficiaries (particularly within the framework of international development programs financed by international economic organizations, such as the World Bank Group, other international banks, or vari-

ous bilateral and multilateral investment funds).

Still, the existence of a rather large body of data on agricultural FDI in Eurasian countries makes it possible to identify the main donor and recipient countries, the most active investor companies, and the most popular FDI target areas, industries and regions, and give an aggregated quantitative (or at least qualitative) assessment of the regional, national and international effect produced by such investments.

Investments in real estate represent another segment which can be described as “gray” in terms of its assessment within the framework of the DIM-Eurasia project. Inasmuch as this sector abounds in small transactions, we enforced strict adherence to the \$3 million minimum threshold to maximize representativeness (which makes real properties stand apart, for example, from industrial facilities or information technologies where — because of the relatively low capital intensity — smaller projects can also play an important role in analyzing corporate integration in Eurasia). Nevertheless, even with this fine-sieve approach, the aggregate value of investments in Real Estate (excluding Construction) exceeded \$7.2 billion. Projects worth another \$1.5 billion were classified under “Hotel Business” (this happened in situations where it was known that newly acquired real properties would be used by the investors to extract profit).

Since 2014, the flow of investments by Russian individuals into foreign real estate — and Russian FDI does play the dominant role here — has sustained certain quantitative and qualitative changes. Those changes have occurred under the influence of several factors, the most significant being crisis-engendered developments in the Russian economy which decimated middle-class incomes; a more than twofold weakening of the ruble against the dollar and the euro; imposition of sanctions on Russia by the US, EU, and certain other states; and the growing tensions in relations between Russia and other countries. Other reasons include legislative initiatives promoted in a number of foreign countries, such as the tightening of control over transactions with expensive real estate properties in the United Kingdom.

According to official CBR data, Russian citizens spent only \$199 million on the acquisition of foreign real estate properties in 1Q 2016, compared to \$281 million in 1Q 2015 and \$484 million in the pre-crisis 1Q 2014, having approached the all-time low recorded in 1Q 2009 (\$178 million). In 2Q 2016, investments in real estate properties went down to \$193 million compared to \$229 in 2Q 2015 (CBR, 2016c). Clearly, the absolute majority of foreign real estate acquisitions are not reflected in CBR statistics, as payments are usually made from foreign bank accounts, and transactions are often registered in the name of legal entities created in offshore jurisdictions. However, the CBR data, although greatly understated, give an accurate picture of the trends shaping investments in foreign real estate. Over the last two years, the general reduction of the value of investments in real properties was accompanied by a decrease of the average price per transaction from approximately €500 thousand in 2014 to €280 thousand in 2016. In the elite real estate sector in the United Kingdom, the average price per transaction dropped by 25% to 3 million; it should also be noted that in London over the last several years, wealthy Russian citizens have been gradually migrating from the

pricey downtown area towards the less expensive boroughs (Kotova, 2016).

Against the backdrop of a general decrease in the value of investments in foreign real estate, a divestment trend recently emerged, with Russian citizens throughout the world putting up for sale both low-end properties and extravagant castles, estates, villas and apartments. The trend has affected both very rich individuals and middle-class representatives. In 2015–2016, Russian owners were getting rid of properties in the United Kingdom (London), offering huge discounts (up to 40%) on their villas in Italy, Greece, Spain, and the Côte-d'Azur, and selling their houses, summer cottages and apartments in Finland, Montenegro and many other European countries. Also, many owners have transferred titles to their foreign real estate properties to companies controlled by them.

With the onset of the economic crisis in Russia, an important shift occurred in the structure of demand for foreign real properties on the part of Russian citizens. Until recently they preferred real estate situated predominantly in resort areas. Some 80% of those properties were purchased for personal use, and only 20% were intended to generate (lease) income. However, the year of 2015 was marked by emergence and ongoing strengthening of elevated demand for real estate investment: by the end of 2015, the ratio of real properties acquired by Russian citizens for personal and commercial use had reached 60% to 40%. Increasingly popular properties include shops, student hostels, hotel apartments, residential properties in major European cities purchased for subsequent lease, and other income-bearing facilities. Such properties are more and more frequently viewed as substitutes for bank deposits, and post-tax yields of 5–6% per annum in euros are considered quite acceptable. Such an approach to investments in foreign real estate properties is particularly widespread among buyers hailing from Russian regions who came to that market en masse in late 2015. Affluent buyers from Novosibirsk, Rostov, Yekaterinburg, and some other regional cities are taking an interest in buying commercial properties in European business centers with values ranging from €1 million to €5 million (Aminov, 2016).

In continental Europe, Russian investors are paying more and more attention to commercial properties situated in middle-sized German and Austrian cities with yields up to 8–9% per annum; most properties in capital cities seldom offer yields in excess of 4% per annum. At least some investors are still driven by the fact that acquisition of relatively small real estate properties in certain countries, especially post-socialist EU countries, guarantees receipt of residence permits (Seytkaliev, 2015). A similar chance to get a five-year resident permit with an option to extend in exchange for acquisition of a real estate with a price tag of €250 thousand or higher is offered, inter alia, by Latvia which previously was a destination of choice for many middle-class investors from Russia and some other CIS countries. Now, however, the Latvian government is discussing an annual fee to be imposed on Russian property owners and their family members in amounts ranging from €5 thousand to €10 thousand; and if the relevant law is actually passed, Russians citizens will probably stop buying real estate properties in that country.

Turkey is a special case. For the last ten or more years, the value of real estate properties purchased by Russian citizens in Turkey has been continuously growing. In 2015 alone (before the recent flare-up between the two countries), Russian citizens acquired more than 2,000 houses and apartments in Turkey. After the Turkish Air Force downed a Russian bomber, relations between Russia and Turkey took a rapid turn for the worse, but even then Russian citizens purchased another 150 houses and apartments. The subsequent rapprochement resulted in an almost immediate resumption of Russian investments in Turkish real estate, and there is a high likelihood that demand for real properties in that country on the part of Russian citizens will remain steadily high for an extended period of time. As for the other Asian countries, real estate markets of India, Vietnam, Thailand, Cambodia, and Israel will remain quite attractive targets for Russian investors.

Geography of meaningful FDI in real estate by citizens of Kazakhstan, Azerbaijan, and Ukraine is less diverse than in the case of Russia. For investors from those countries, the United Kingdom remains the preferred destination, followed close behind by some other EU states, Switzerland, Israel, and the UAE. Capital investments by the State Oil Fund of the Republic of Azerbaijan (which we also classified under “Real Estate (excluding Construction)”) deserve special notice. Besides FDI in EU countries, the fund has invested in South Korea and Japan.

1.3. Main Parameters of Investment Projects Included in the DIM-Eurasia Database

The DIM-Eurasia Database is dominated by projects with investment values below \$100 million. Those projects are the key contributors to the substantial general increase in the number of non-zero FDI projects. The number of such projects increased from 642 at the end of 2008 to 793 at the end of 2011, and then on to 999 at the end of 2014 and 1,007 at the end of 2015. It should be noted, however, that the largest projects display sustainable growth as well (see Figure 2).

The list of the largest transactions in the DIM-Eurasia Database has considerably changed over the past year. Thus, in 2015 there were two new mega-large transactions. First, the Russian investment fund LetterOne (or, to be more exact, one of its units called L1 Energy) acquired the German oil and gas company DEA. By the end of 2016, the \$5.5 billion figure is likely to be adjusted after some assets have been reassigned to other North Sea countries (especially in the light of the fact that in 2016 new FDI surged dramatically, at least in Norway). Second, the Dutch company Royal Dutch Shell became the owner of a 29.2% stake in the Kazakh oil and gas project Karachaganak after it had acquired the British firm BG, the previous owner of that asset (we estimate the total FDI related to this transaction at \$5 billion)¹.

¹ In nominal terms, the value of inbound Kazakh FDI has not changed, as British capital investments have been replaced with Dutch capital investments when the asset passed from one company to the other.

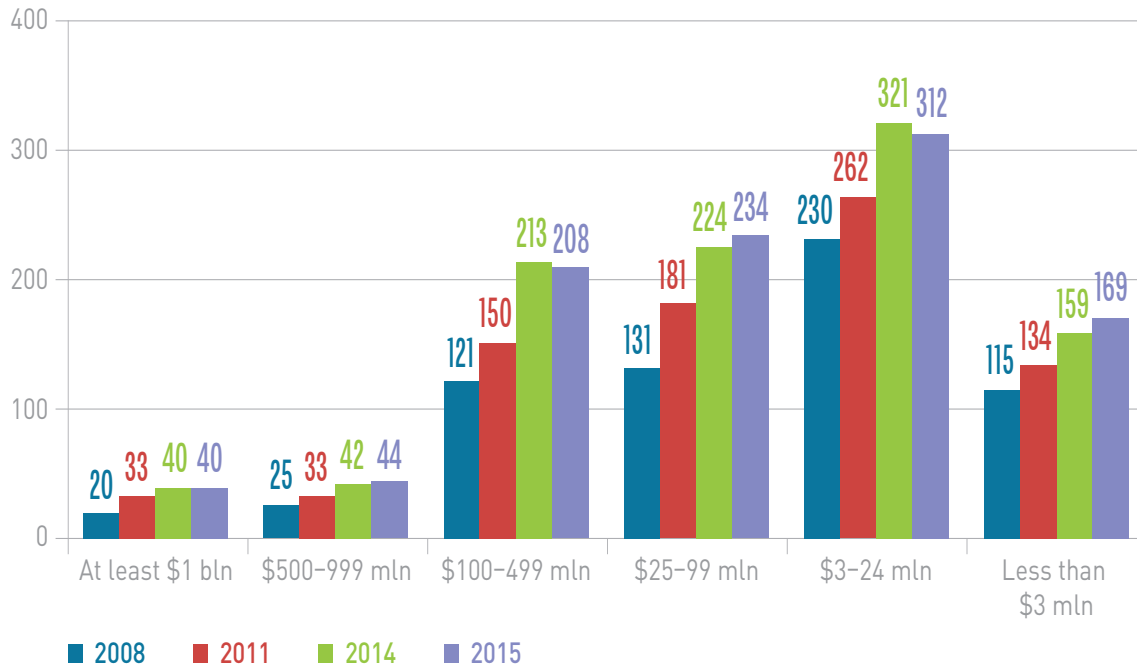


Figure 2. Distribution of DIM-Eurasia Database Projects by FDI Stock Value

In addition to several revaluations of previously created assets and insignificant additional investments, we note amendments that we made to the VimpelCom Italian project (see Table 2). Only at the end of 2015 did that telecommunication company publish financial statements disclosing the official value of assets owned in its key host countries in 2013–2015. As we had hypothesized, it took VimpelCom considerably more in terms of FDI costs to capture the Italian market than it did to get a foothold in Pakistan and Bangladesh. Before that hypothesis was proven, we had assumed that FDI distribution (excluding goodwill investments) was proportional to the number of the company’s mobile telephone clients in different countries (EDB Centre for Integration Studies, 2015).

Several companies noticeably expanded their presence in the leading projects included in the DIM-Eurasia Database. In Azerbaijan, for instance, the Turkish company TPAO (Türkiye Petrolleri A.O.), previously a portfolio investor, changed its status to that of a direct investor by buying an additional 10% stake in the Shah Deniz project from the French company Total for \$1.5 billion; and Gazprom, by making an asset swap, assumed full control over W & G Beteiligungs GmbH & Co. KG (former VINGAZ).

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Table 2. Twenty Largest Transactions in the DIM-Eurasia Database (End of 2015)

Investor Country	Recipient Sector	Recipient Industry	Investor Company	FDI Recipient Country	Target Facility	Project Start Year	2015 Year-End FDI, \$ billion
China	Oil and Gas	Production of Crude Oil and Natural Gas	CNPC	Kazakhstan	Aktobe-MunaiGaz	1997	7.7
Russia	Communication and IT	Telecommunications (Telephone Communication and Internet)	VimpelCom	Italy	Wind Telecomunicazioni	2011	7.5
Russia	Finance	Banking	Sberbank of Russia	Turkey	Denizbank	2011	6.3
Netherlands	Oil and Gas	Production of Crude Oil and Natural Gas	Royal Dutch Shell	Russia	27.5% stake in Sakhalin-2	1996	6.1
Russia	Oil and Gas	Production of Crude Oil and Natural Gas	LetterOne	Germany	DEA	2015	5.5
Japan	Oil and Gas	Production of Crude Oil and Natural Gas	SODECO Consortium	Russia	30% stake in Sakhalin-1	1996	5.1
Japan	Oil and Gas	Production of Crude Oil and Natural Gas	Mitsui, Mitsubishi	Russia	22.5% stake in Sakhalin-2	1996	5.0
Netherlands	Oil and Gas	Production of Crude Oil and Natural Gas	Royal Dutch Shell	Kazakhstan	29.2% stake in Karachaganak	2015	5.0
China	Transportation	Trunk Pipelines	Trans-Asia Gas Pipeline Company	Kazakhstan	Kazakhstan – China Pipeline	2008	4.8
Russia	Oil and Gas	Production of Crude Oil and Natural Gas	LUKOIL	Iraq	West Qurna-2	2010	4.0
India	Ferrous Metals	Production of Cast Iron, Steel and Rolled Stock	ArcelorMittal	Ukraine	Krivorozhstal	2005	3.7
India	Oil and Gas	Production of Crude Oil and Natural Gas	ONGC	Russia	20% stake in Sakhalin-1	2001	3.4
Kazakhstan	Oil and Gas	Oil Refining	KazMunay-Gaz	Romania	Rompetrol	2007	3.3
Turkey	Oil and Gas	Production of Crude Oil and Natural Gas	TPAO	Azerbaijan	19% stake in Shah Deniz	2014	2.9
Russia	Oil and Gas	Oil Refining	LUKOIL	Bulgaria	Neftochim Burgas	1999	2.6
Russia	Oil and Gas	Transportation and Sale of Gas	Gazprom	Germany	W & G Beteiligungs-GmbH & Co. KG	1990	2.4

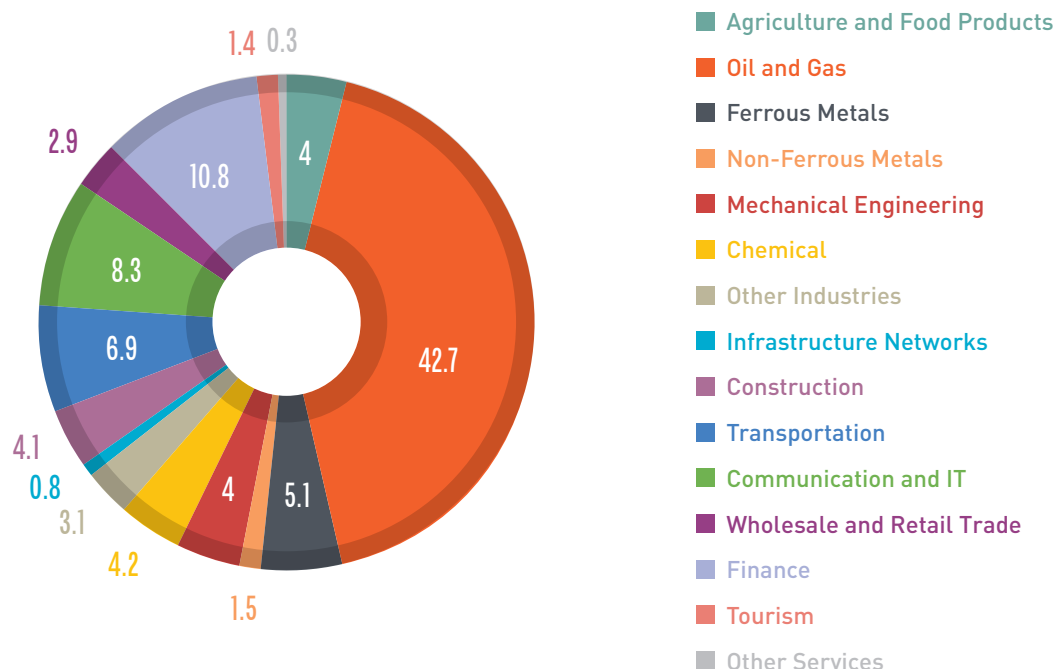
1. DESCRIPTION OF THE DIM-EURASIA DATABASE

Russia	Communication and IT	Telecommunications (Telephone Communication and Internet)	LetterOne	Turkey	13.8% stake in Turkcell	2005	2.4
Russia	Oil and Gas	Oil Refining	LUKOIL	Italy	ISAB	2008	2.2
India	Oil and Gas	Production of Crude Oil and Natural Gas, Oil Refining	ONGC	Russia	Assets in Tomsk Region	2009	2.2
India	Ferrous Metals	Production of Cast Iron, Steel and Rolled Stock	ArcelorMittal	Kazakhstan	Temirtau Plant	1995	2.2

All in all, 20 largest projects accounted for \$84.3 billion, or 41%, of total FDI stock registered in the DIM-Eurasia Database at the end of 2015. In terms of the number of projects, Russia and India took the lead with eight and four projects, respectively. There were also mega-large Chinese, Japanese, Dutch, Kazakh, and Turkish investment projects. The Oil and Gas sector had the dominant position with the bulk of total FDI stock registered in the DIM-Eurasia Database at the end of 2015 (see Figure 3).

In terms of the total number of projects (including those completed by the end of 2015), Oil and Gas comes after Finance (127 projects vs. 214 projects), primarily because most operations with Real Estate (excluding Construction) are classified under Finance. In terms of FDI stock, however, positions of the two sectors are reversed: \$87.2 billion versus \$22.1 billion. Other sectors which stand out in terms of the scope of FDI registered in the DIM-Eurasia Database at the end of 2015 include Communication and IT (\$16.9 billion with only 63 projects) and Transportation (\$14.2 billion and 75 projects). In terms of the number of projects, the list of leaders also includes Wholesale and Retail Trade (113 projects with only \$5.9 billion), Agriculture and Food Products (103 projects and \$8.2 billion), and Mechanical Engineering (100 projects and \$8.2 billion).

Figure 3. Sectoral Structure of FDI Registered in the DIM-Eurasia Database (End of 2015, %)



During the period under review, the share of Oil and Gas in the sectoral structure of FDI of all monitored countries has not sustained any significant change — at the end of 2008 it stood at 40.2%, with maximum and minimum values registered in 2009 and 2012 (45.2% and 37.7%, respectively). Notably, the share of Oil and Gas in mutual direct investments of CIS countries is approximately the same: for example, at the end of 2015 it was 42.7% (EDB Centre for Integration Studies, 2016). The largest decrease of the share in total FDI stock according to the DIM-Eurasia Database was registered for Ferrous Metals (down from 13.3% to 5.1% over the course of seven years); the largest increase was for Transportation and Construction (up from 4.9% to 6.9% and from 1.5% to 4.1%, respectively). A detailed review of the sectoral structure makes most sense when undertaken at the level of individual countries and groups of neighboring countries (see following sections).

2. Direct Investments by CIS Countries in the Eurasian Continent

More and more business entities from CIS countries gradually expand their foreign operations. In the process of that expansion, many companies have gone beyond the limits of the post-Soviet area — even if originally their FDI was confined to the familiar and relatively more comfortable former Soviet Union republics. This, however, does not mean that most post-Soviet TNCs have become truly global; even the largest Russian TNCs can seldom boast sizeable investments in, say, Latin America (Kuznetsov, 2014). In reality, we are dealing with the domination of the so-called regional TNCs: crossing CIS boundaries, most investors still use the Eurasian continent as the target of choice for their FDI.

2.1. Geographical and Sectoral Structure of Russian FDI

Russian companies continue to play the leading role among post-Soviet investors operating in foreign countries. This year we did a major review of the structure of Russian FDI in Eurasian countries, both because of the more than threefold reduction of the minimal threshold for FDI entry into the DIM-Eurasia Database (within the framework of synchronization with the MIM CIS Database), and in order to more fully reflect data on Russian investments in large real estate properties. We also obtained additional information on certain transactions previously included in the database (e.g., with respect to VimpelCom — see above).

Despite all this, the list of the leading recipients remained almost unchanged. According to the DIM-Eurasia Database, Germany accounted for 16.2% of total Russian FDI stock in Eurasian countries, Italy and Turkey for 15.3% and 12.5%, respectively. All in all, countries making up the top ten actual recipients of Russian FDI (including capital investments through offshore areas), accounted for 74% of total Russian FDI in Eurasian countries outside the CIS (\$60.5 billion). Extensive use by Russian companies of “trans-shipping destinations” (with the CBR doing little, if anything, to track the movement of capital flows beyond those destinations) and the existence of massive FDI in small projects often produced a rather wide gap between DIM-Eurasia data and official statistics. Cyprus, the Netherlands, Austria, Luxembourg, and Switzerland saw the largest excess of CBR data over DIM-Eurasia data. Compared to the official statistics, our database offers a much better coverage for Italy, Iraq, Vietnam, Serbia, Romania, and South Asian countries (see Table 3).

It should be stressed that, according to DIM-Eurasia data, there has been no shift of Russian FDI to the East during the period under review. Thus, the share of EU countries in Russian FDI stock in Eurasian countries outside the CIS, having gone down from 70.9% at the end of 2008 to 60.9% at the end of 2011, more or

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Table 3. Comparison of DIM-Eurasia and CBR Data on Russian FDI Stock in Key Recipient Countries

FDI Recipient Country	FDI Stock at the end of 2009, \$ billion		FDI Stock at the end of 2011, \$ billion		FDI Stock at the end of 2013, \$ billion		FDI Stock at the end of 2015, \$ billion	
	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR
Germany	4.63	7.44	5.91	6.34	6.64	9.89	13.25	10.99
Italy	4.24	1.91	11.20	1.34	12.36	2.06	12.52	2.31
Turkey	3.08	2.64	7.90	3.57	6.37	5.28	10.25	6.02
United Kingdom	3.06	10.34	4.30	10.06	4.80	9.19	5.33	8.24
Bulgaria	1.57	1.59	2.02	2.44	3.06	2.86	4.40	3.11
Iraq	0.00	0.00	2.10	0.11	4.25	0.11	4.31	0.11
Switzerland	1.36	7.70	2.29	11.96	4.93	12.89	4.06	17.98
Serbia	0.96	0.39	1.38	1.49	2.83	1.79	2.53	0.80
Vietnam	0.93	...	1.98	...	2.04	...	2.04	0.00
Austria	1.02	6.05	1.42	3.96	1.47	25.89	1.88	21.85
Belgium	0.84	0.02	1.10	0.14	2.51	0.27	1.71	0.49
France	0.51	1.34	0.56	1.77	1.78	3.67	1.70	3.30
Norway	0.00	0.11	0.00	0.28	0.01	0.21	1.61	0.50
Poland	0.82	0.60	0.74	0.55	1.60	0.63	1.53	0.55
Romania	1.51	0.06	1.54	0.15	1.39	0.04	1.35	0.03
India	2.59	1.88	1.94	0.99	1.91	-0.54	1.27	0.07
Netherlands	1.06	24.57	1.13	56.93	1.31	60.60	1.20	65.47
Bangladesh	0.00	0.00	0.73	0.00	1.30	0.00	1.15	0.00
Pakistan	0.00	...	1.30	...	1.27	...	0.91	...
Latvia	0.57	0.54	0.59	0.70	0.82	3.05	0.76	1.91
Countries with Record-High FDI Levels According to the CBR (and Modest FDI Levels According to DIM-Eurasia)								
Cyprus	0.11	115.90	0.11	125.36	0.11	163.07	0.11	112.58
Luxembourg	0.00	14.80	0.00	12.09	0.01	11.35	0.01	14.66
Spain	0.15	3.06	0.24	3.12	0.25	4.78	0.23	6.22
Ireland	0.44	0.66	0.48	1.85	0.53	2.73	0.56	3.25
Monaco	0.00	0.21	0.37	0.55	0.37	0.88	0.37	1.38

Sources: the DIM-Eurasia Database and CBR (2016b).

less stabilized and at the end of 2015 reached 62% (mostly due to Gazprom and LetterOne investments in Germany). The aggregate share of Asian countries at first increased quite significantly from 23.1% in 2008 to 31% in 2011, and then went back down to 26.7% at the end of 2015. A somewhat erratic FDI stock movement is typical for the leading recipient of Russian FDI in Asia – Turkey (but then again, this is more or less true for the other Middle East countries, as well).

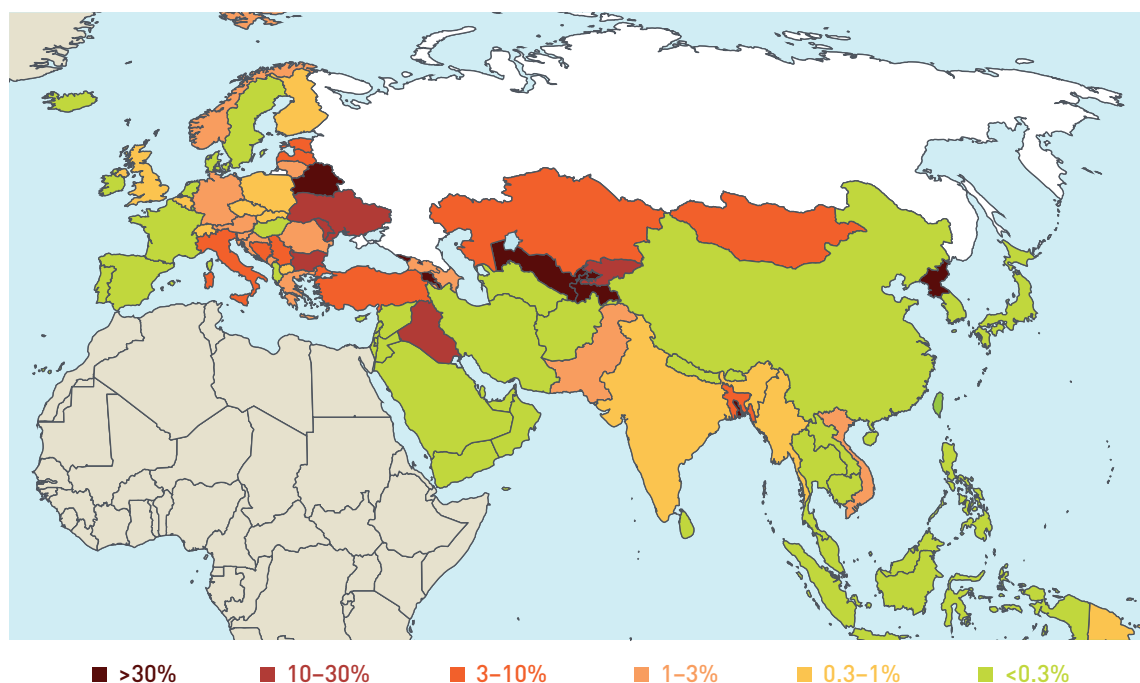


Figure 4. Share of Russian Capital Investments in Total FDI Stock in Eurasian Countries at the End of 2015

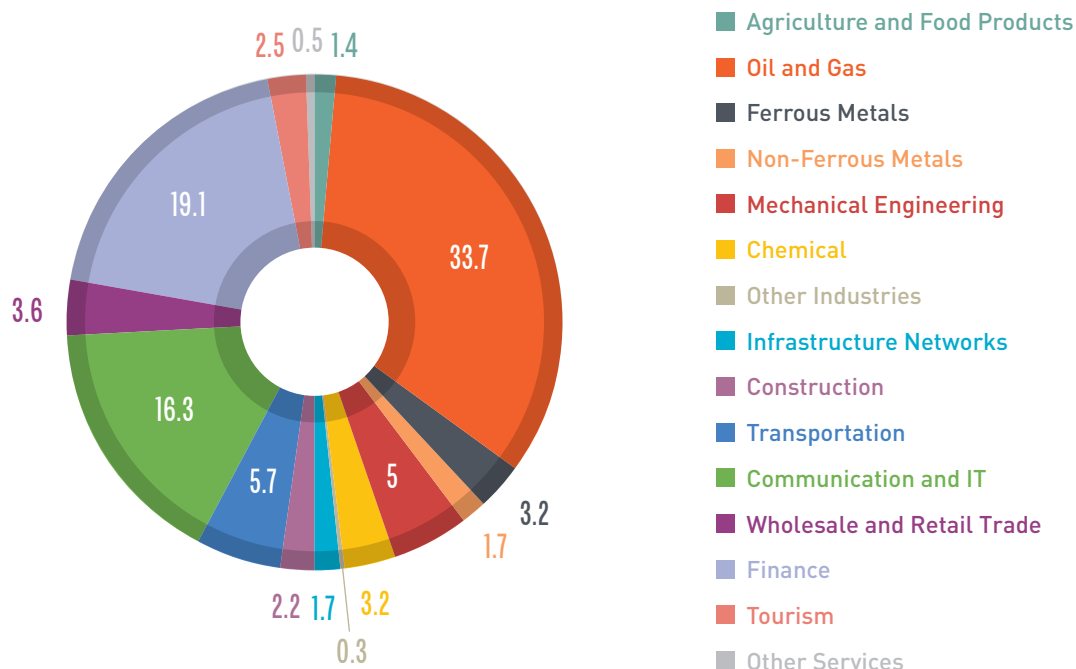
Sources: the DIM-Eurasia and MIM CIS Databases and UNCTAD data.

Investments in that region are affected, among other things, by international political problems. At the same time, the share of South Asian countries (India, Bangladesh, and Pakistan) has been inexorably going down (from 7.6% at the end of 2008 to 4.1% at the end of 2015), as the Russian telecommunication companies operating in that region through offshores failed to solidify their positions.

The share of Russian investments in total FDI stock is often higher in Asian countries (calculations performed on the basis of a comparison of DIM-Eurasia, MIM CIS and UNCTAD data — see Figure 4). However, while in the post-Soviet area and the Balkans the key factors are the “neighborhood effect” and the absence of linguistic, cultural or informational barriers, in Asia the critical role is played by the political factor. Thus, outside the CIS, the share of Russian FDI in excess of 30% was registered only in North Korea (that indicator was higher only in a number of post-Soviet countries — Armenia, Tajikistan, Belarus, and Uzbekistan). 10% plus levels of Russian FDI stock outside the CIS were noted in Iraq and Bulgaria, while in Bangladesh, Serbia, and Bosnia and Herzegovina, Russian FDI stock stood at 8–9%.

In terms of sectoral structure, the share of Oil and Gas in Russian FDI stock was lower than the DIM-Eurasia Database average, even though it had increased from 25.8% at the end of 2008 to 33.7% at the end of 2015 (see Figure 5). The second position is held by Finance whose share has increased from 13.4% to 19.1% over the course of seven years. The Communication and IT sector also stands out: during the same seven-year

Figure 5. Sectoral Structure of Russian FDI Registered in the DIM-Eurasia Database (End of 2015, %)



period its share has increased from 12.5% to 16.3%. Peak values were registered in 2011, when the share of Communication and IT in total Russian FDI stock in Eurasian countries outside the CIS was 22.7%. The highest decline of the share in total Russian FDI stock was posted by Wholesale and Retail Trade (from 8.1% at the end of 2008 to 3.6% at the end of 2015).

Oil and gas, telecommunication, and financial TNCs are among the leading Russian investors in Eurasia outside the CIS (see Table 6). Incidentally, Russian TNCs clearly dominate against the background of investors from the other post-Soviet countries. Thus, the only non-Russian investors that have made it into the top dozen of CIS investors are the Kazakh oil and gas TNC KazMunayGaz, the Azerbaijani oil and gas giant SOCAR, and the SOFAZ. The latter serves as an example of a relatively new phenomenon in the world economy — a sovereign fund with massive FDI.

The leading Russian TNCs have the most diversified business geography. For example, LUKOIL is represented in 21 Eurasian countries outside the CIS (and in six post-Soviet countries — see EDB Centre for Integration Studies, 2016). It is followed by Gazprom which actively invests in 16 Eurasian countries outside the CIS plus seven CIS countries, VTB Group (14 plus 6), and Sberbank (10 plus 3).

2. DIRECT INVESTMENTS BY CIS COUNTRIES IN THE EURASIAN CONTINENT

Company	FDI Stock at the end of 2015, \$ billion	Number of countries where the company has invested \$3 million or more	Leading FDI recipient country and its share
LUKOIL	13.70	21	Iraq — 29.3%
LetterOne	9.40	3	Germany — 58.0%
VimpelCom	9.07	4	Italy — 82.8%
Sberbank	7.85	10	Turkey — 80.0%
Gazprom (including Gazpromneft)	6.82	16	Germany — 49.3%
<i>KazMunayGaz</i>	<i>5.07</i>	5	<i>Romania — 94.9%</i>
SOCAR	4.72	3	Turkey — 89.7%
Renova	4.67	3	Switzerland — 78.3%
Rosneft	3.20	5	Germany — 39.3%
VTB Group	2.84	14	Austria — 27.9%
SOFAZ	2.20	6	Turkey — 38.4%
Russian Railways	2.15	5	France — 47.3%

Table 4. Leading CIS Direct Investors in Eurasian Countries Outside the CIS

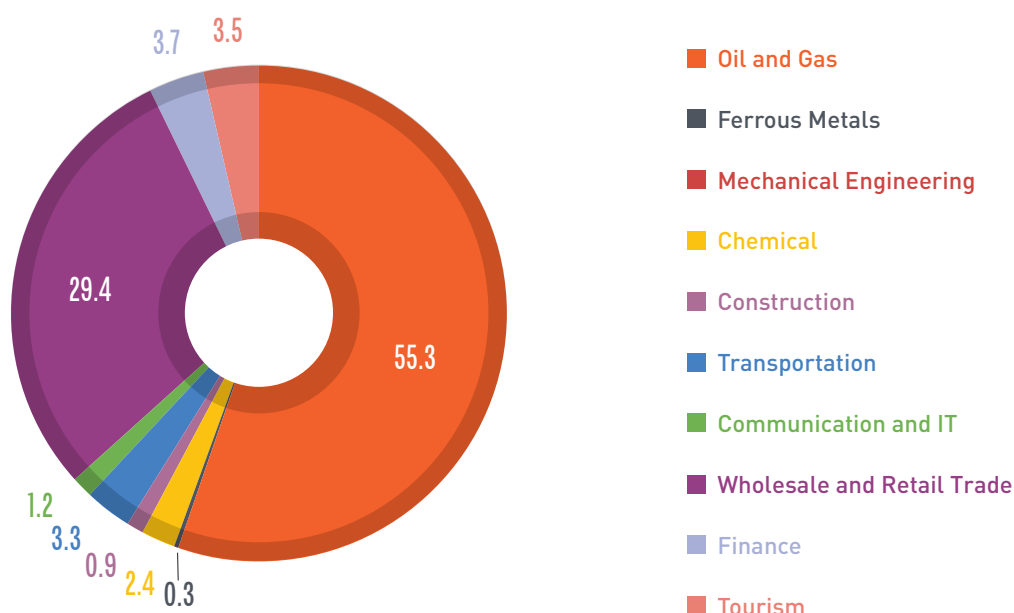
Investors from Azerbaijan and Kazakhstan are shown in italics; all other investors are from Russia.

2.2. FDI by Other EAEU Countries in Eurasia

In the EAEU, Kazakhstan still comes second after Russia in terms of capital export to Eurasian countries. According to the DIM-Eurasia Database, in 2015 Kazakh FDI stock in Eurasian countries outside the CIS reached almost \$6 billion. Similar indicators for the past years were revised; in particular, Kazakh FDI stock in the region under review for 2014 was adjusted to \$6.2 billion. The need to perform the adjustments arose because the DIM-Eurasia Database was replenished with previously inaccessible information on past projects.

This did not, however, affect the previously observed upward trend, with Kazakh FDI in Eurasia steadily growing from 2009 to 2014. A modest decrease of capital exports in 2015 by 3% was caused by the sale of the Dyneff stake to the Chinese corporation CNPC. The Kazakh company KazMunayGaz has been operating in the French and Spanish petrol station markets under the Dyneff brand since 2007, when KMG acquired the Dyneff parent, Rompetrol. Taking into consideration the fact that, in the course of modernization of Rompetrol's processing facilities, the capacity of Petromidia and Vega oil refineries was significantly expanded, there arose the need to build up the European retail network. An opportunity to do that presented itself when KMG began to cooperate with the Chinese corporation CNPC which had entered the European market in 2011 as the operator of two oil refineries (one in France and one in Scotland), and the owner of a large petrol station network.

Figure 6. Sectoral Structure of Kazakh FDI Registered in the DIM-Eurasia Database (End of 2015, %)



As for the sectoral structure, Oil and Gas remains the key sector of Kazakhstan's international specialization. At the end of 2008, the sector accounted for 59% of total Kazakh FDI stock, peaking out in 2009 at 65.6% with a subsequent gradual decrease to 55.3% at the end of 2015. Wholesale and Retail Trade was the second most important sector during the period under review. In 2015 its share stood at 29.4%, down from 31.2% in 2013, mostly due to the sale by KazMunayGaz of one half of its Dyneff stake. It should be noted, though, that at the end of 2008 Wholesale and Retail Trade accounted for merely 23% of total Kazakh FDI stock in Eurasian countries outside the CIS. The third position is held by Finance, whose share in 2015 was 3.7%, a major decrease from 8.7% seven years before. Of the remaining sectors, only Communication and IT and Construction play any meaningful role (see Figure 6).

In terms of FDI stock value, Romania is the main recipient of Kazakh capital in Eurasia outside the CIS. Even at the end of 2008, it accounted for 75% of Kazakh FDI exports to Eurasia, while by the end of 2015 that indicator exceeded 80% (see Figure 7). The Romanian Rompetrol (Oil and Gas) remains the largest investment project with a value of more than \$3 billion.

The "neighborhood principle" is the key driver shaping Kazakh investments in Asian countries. For example, in China we have found seven investment projects with Kazakh involvement, although all of them are valued below \$50 million. The most widespread form of Kazakh capital presence in the PRC is investing in Kazakh-Chinese joint business ventures.

2. DIRECT INVESTMENTS BY CIS COUNTRIES IN THE EURASIAN CONTINENT

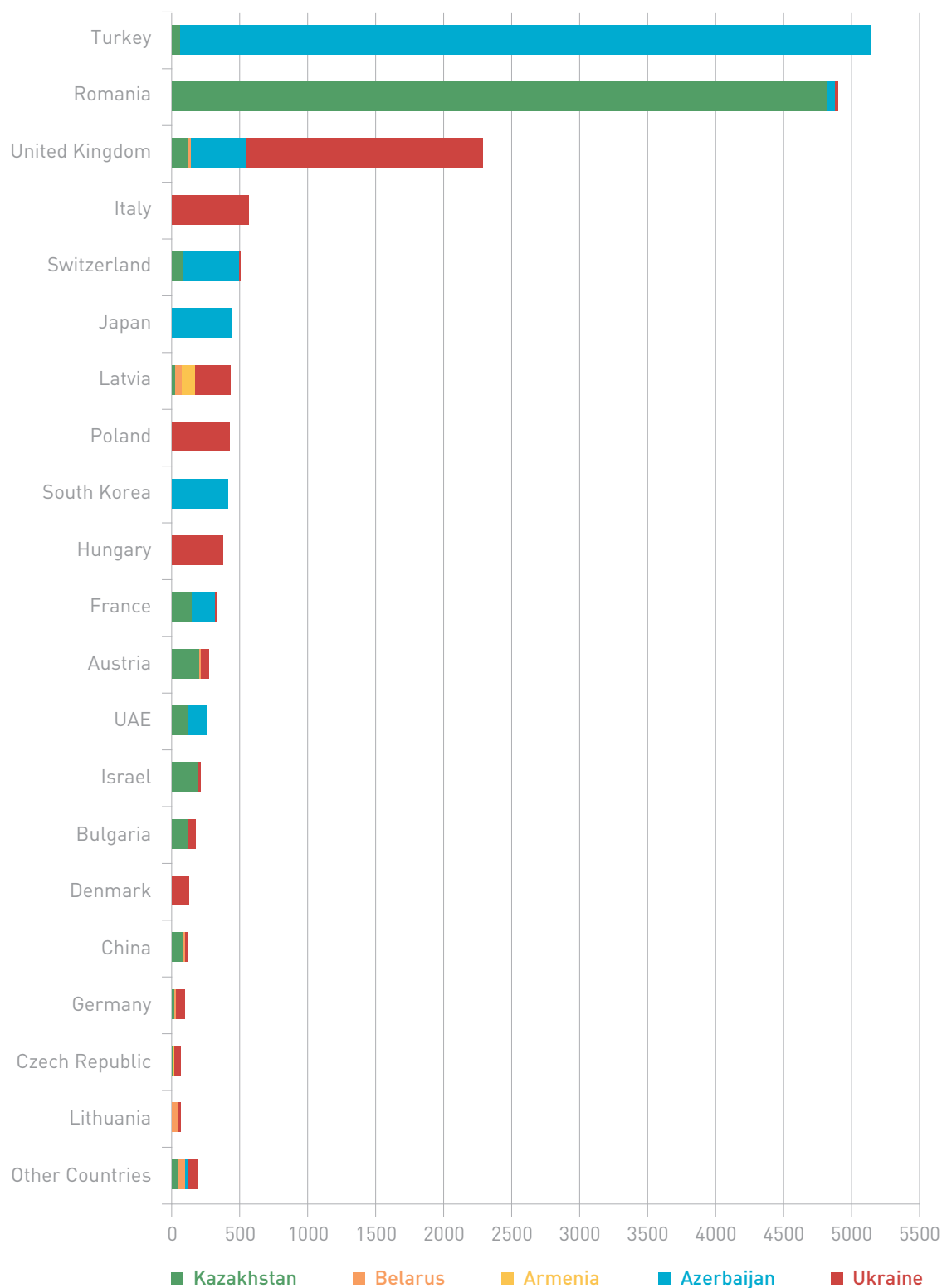


Figure 7. Main Geographical Priorities of Post-Soviet Area FDI in Eurasian Countries Outside the CIS at the End of 2015 (\$ million)

For example, the largest Kazakh project in China according to the DIM-Eurasia Database is the Kazakh-Chinese logistical enterprise, which is engaged in the construction of terminal infrastructure in a port in Jiangxi Province. The list of purchases includes a small but important acquisition by the Kazakh mining company ENRC of a 50% stake in one of China's largest ferrochrome manufacturers. Kazakh investments in South Asia and in the Middle East are concentrated in Communication and IT and Construction. These two sectors in the aggregate boast the largest number of Kazakh projects. For example, KazStroyService has two subsidiaries in India and one subsidiary in the UAE, and owns a stake in the Indian Petron Group, one of the key industrial facility contractors in the entire Middle East.

Baltic states are the key recipients of Belarus investments. Taking into consideration the country's geographic position, its largest companies seek access to sea ports to boost their exports. The first major Belarus investment in the EU Transportation sector was the acquisition by Belaruskali of a 30% stake in the Klaipeda bulk cargo terminal in 2013. The price tag was \$30 million, but Belaruskali intends to expand its presence even further. In 2015 the Belarus Potassium Company purchased a 40% stake in the Lithuanian company Fertimara specializing in handling cargoes in the Klaipeda port. In the same year, the Belarus Petroleum Company entered into an agreement with SIA Woodison Terminal for the purchase of a stake in an oil loading terminal in Riga. It is anticipated that the Belarus Petroleum Company will continue to invest in development and modernization of the terminal; the original investment is estimated at \$15 million.

In addition to investments in port infrastructure facilities, large Belarus companies are building up their commodity distribution networks. For example, operations of the Belneftekhim concern in Europe outside the CIS are supported by its subsidiaries registered in Latvia (SIA Oil Logistic), Lithuania (UAB Transchema), and Poland (BNH-Oil Polska Sp. z o.o.). Even though establishment of such controlled trade companies does not require major investments, it is extremely important as it makes it possible for Belarus players to strengthen their positions in the European market.

Not all Belarus investors in Europe proved to be successful in 2015. The Fresh Market retail network created in Lithuania by Euroopt owners S. Litvin and V. Vasilko has ceased to exist. At first, Fresh Market stopped its internet operations, then it began to close down its physical outlets. Lithuanian experts claim that the network's failure was caused by harsh competition. Fresh Market entered the market in 2013, and total investments in its 26 outlets are estimated at \$20 million.

Belarus mechanical engineering companies are gradually increasing their output in China. In 2015, the registration of the second joint venture for the manufacturing of harvesters was completed with the participation of Gomselmash (the first JV was created in 2009). Other joint Sino-Belarus ventures in China were established by BelAZ and the Minsk Tractor Plant.

There are few Armenian investments outside the CIS registered in the DIM-Eurasia Database, and in 2015 Armenian investment activity remained rather sluggish. The Riga Hotel Compound acquired in 2012 by G. Tsarukyan's Multi Group for \$60 million is still closed for renovation, even though it should have been reopened by the end of 2015. Capital repair costs are estimated at \$30 million. The second largest Armenian business project is the cake-maker Marlenka International created by G. Avetisyan in the Czech Republic in 2003. The project keeps growing: by 2014 the company managed to considerably increase its production capacity and open a coffee house in the Frýdek-Místek Castle. Aggregate investments are estimated at \$20 million.

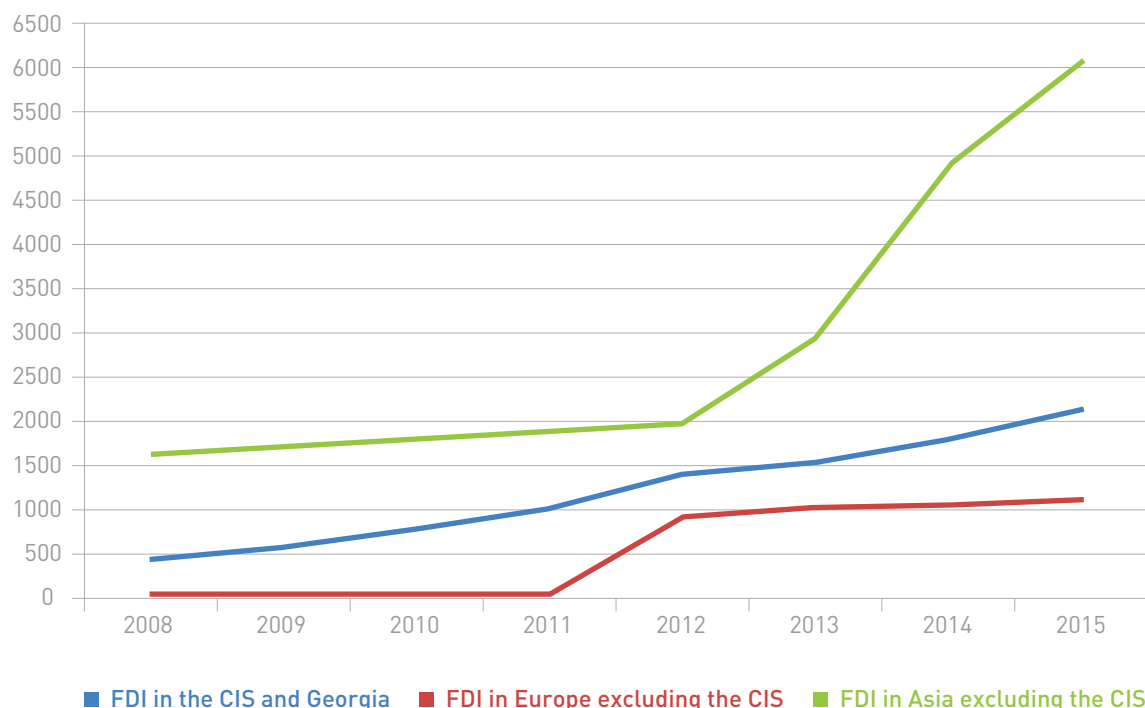
The DIM-Eurasia Database contains no records of foreign investment activities by companies from Kyrgyzstan or Tajikistan. Inasmuch as there are no large companies in those countries that would be willing to expand into foreign markets, there is little hope that FDI outflows will increase any time soon. Nevertheless, individuals from Kyrgyzstan and Tajikistan are quite capable of making significant FDI, for example, in foreign real properties.

2.3. Azerbaijani Investments: Domination of Companies with State Equity Participation

The need to include direct investments originating from the Republic of Azerbaijan in the DIM-Eurasia Database is dictated by the fact that Azerbaijan was one of the first countries in the post-Soviet area which began to make material investments abroad. According to UNCTAD statistics, as far back as in 2003 its FDI stock exceeded \$1 billion (Kazakh and Ukrainian investments at that time were below \$300 million). By the end of 2014, direct capital investments by Azerbaijan residents reached \$11.2 billion (according to UNCTAD, of all CIS countries, only Russia and Kazakhstan posted higher values). Unlike many other countries in the region, Azerbaijan has been steadily increasing the volume of its investments in foreign assets throughout the period from 2009 to 2014, meaning that transnationalization of the Azerbaijani economy proceeded at a relatively faster pace. On the other hand — and this is the second important argument in favor of keeping a close eye on Azerbaijani investments — little, if anything, is known about their geographical or sectoral structure. The information disclosed by the Central Bank and the State Statistical Committee of Azerbaijan is fragmentary at best, and is not sufficient to rank Azerbaijani capital recipient countries by inbound investment volume. Due to the dearth of statistical information, analysis of FDI at the micro-level is the most efficient way to understand the nature of Azerbaijani involvement in international investment flows.

When monitoring Azerbaijani FDI in Eurasian countries outside the post-Soviet area, we have identified more than 20 projects which exceed the threshold value (\$3 million) with an aggregate 2015 year-end value of \$7.2 billion, an increase by a factor of 4.2 compared to the 2008 year-end level. It should be noted that in

Figure 8. Change in Azerbaijani FDI in Eurasian Countries Outside the CIS Compared to FDI in CIS Countries and Georgia in 2008–2015 (\$ million)



2008–2011 the rate of accumulation of direct investments was rather slow, but the process accelerated in 2012–2015. Comparison of these data with data on the CIS and Georgia collected within the framework of MIM CIS, a neighboring project of the RAS IMEMO and EDB Centre for Integration Studies, shows that the main target of investment expansion by Azerbaijani business is foreign countries, primarily Asian countries, where Azerbaijani FDI stock is about four times larger than in the post-Soviet countries (see Figure 8).

The list of European and Asian recipient countries (excluding CIS countries and Georgia) is decisively topped by Turkey, which by the end of 2015 accumulated 71% of all Azerbaijani FDI worth \$5.1 billion. The closest also-rans, with a sizeable lag, are Japan, the United Kingdom, Switzerland, and South Korea, each with 5% to 6% of total Azerbaijani direct investments, followed far behind by France, the UAE, and Romania (with FDI ranging from 1% to 3%). Investments in all other countries are currently insubstantial.

Turkish domination in the geographical structure of Azerbaijani FDI was secured by investments made by the State Oil Company of the Azerbaijan Republic (SOCAR) which during the period of high oil prices obtained sufficient financial resources to support its impressive foreign acquisition ambitions. Its first large-scale project was the purchase (together with Turcas and Injas) of a 51% stake, previously owned by the Turkish government, in the petrochemical company Petkim Petrokimya. The transaction was initially viewed by SOCAR as a stepping

stone towards creation in Turkey of an integrated oil processing system with the participation of Azerbaijani capital. In 2013 SOCAR Turkey (SOCAR's Turkish subsidiary) launched a \$4 billion project envisaging construction of the Star Refinery in the Turkish Izmir province in the vicinity of a large petrochemical facility. Construction of the container port of Petlim Limancılık (scheduled for opening at the end of 2016) started during the same year. SOCAR was also involved in the Trans-Anatolian Natural Gas Pipeline (TANAP) construction project which is viewed by Azerbaijan as strategically important. TANAP is to become a part of the Southern Gas Corridor designed to enable delivery of Azerbaijani gas to the European Union. The share of SOCAR in the project stands at 58%, with the Turkish Botas and the British BP holding the other two stakes (30% and 12%, respectively). Aggregate investments into TANAP are estimated at \$9–10 billion. Construction is expected to be completed in 2018, and onshore welding operations have been under way since 2015.

While working in Turkey, SOCAR, as a rule, creates consortia with companies from other countries, in each case retaining controlling interests. As of June 2016, total investments in SOCAR-led projects in Turkey amounted to \$7.5 billion, with SOCAR's contribution being slightly in excess of \$4 billion (Efendiev, 2016). It should be noted, however, that the Star Refinery project (\$840 million) was partially financed by the State Oil Fund of the Republic of Azerbaijan (SOFAZ), the second-largest Azerbaijani investor in Turkey.

Turkey also has direct investments coming from Azerbaijani private companies and individuals. For example, in 2014 more than 150 firms with Azerbaijani equity participation were established in that country, including 38 joint stock companies (Contact.az, 2015). The overwhelming majority of those companies were small businesses with an average invested amount of \$311 thousand.

Besides Turkey, SOCAR is the largest Azerbaijani investor in two other countries: Romania and Switzerland. In both countries, the recipient businesses are petrol filling station networks. In Romania, SOCAR purchased a 90% stake in Romtranspetrol (2011); in Switzerland, Esso Schweiz, previously owned by the American Exxon Mobil (2012). Additionally, Geneva is the home town of the trading company SOCAR Trading, which sells Azerbaijani oil and petroleum products in foreign markets.

The relatively large investments in Japan, the United Kingdom, South Korea, and France are represented by office and trade compounds purchased by SOFAZ. Pursuant to Rules Governing Preservation, Placement, and Management of FX Funds, SOFAZ invests up to 10% of its assets in real properties, with a marked preference for first-class assets located in developed countries and generating steady lease income. Foreign real properties are acquired not only by SOFAZ, but also by private investors, but it is very difficult to ascertain the scale of those investments due to the absence of reliable quantitative data.

Even though the Azerbaijani economy is currently depressed by low energy prices, in the next several years foreign investment stock is likely to keep growing.

Most capital investments will be directed into ongoing projects in accordance with previously approved investment programs. It is possible, though, that high costs will force Azerbaijani companies to divest some of their project stakes, and reinvest the proceeds. This assumption is borne out by the sale by SOCAR in March 2016 of a 2.75% stake in Petkim to a foreign investment fund.

The Azerbaijani FDI upward trend may be reinforced by the emergence of several new projects capable of drawing massive capital investments in 2017–2018. Certainly, the most important of those projects is the Trans-Adriatic Pipeline to deliver gas to Italy through Greece and Albania and then across the Adriatic Sea; the pipeline, like TANAP, will be a part of the Southern Gas Corridor. The share of SOCAR in the project (estimated at €6.2 billion) is 20%, with the other stakes owned by BP (UK), Snam (Italy), Fluxys (Belgium), Enagas (Spain), and Axpo (Switzerland). The project was officially launched on May 17, 2016, in the Greek town of Thessaloniki. Finally, in 2013 SOCAR won the tender for the acquisition for €400 million of a 66% stake in the Greek gas transportation company DESFA, but the deal was suspended by the European Commission.

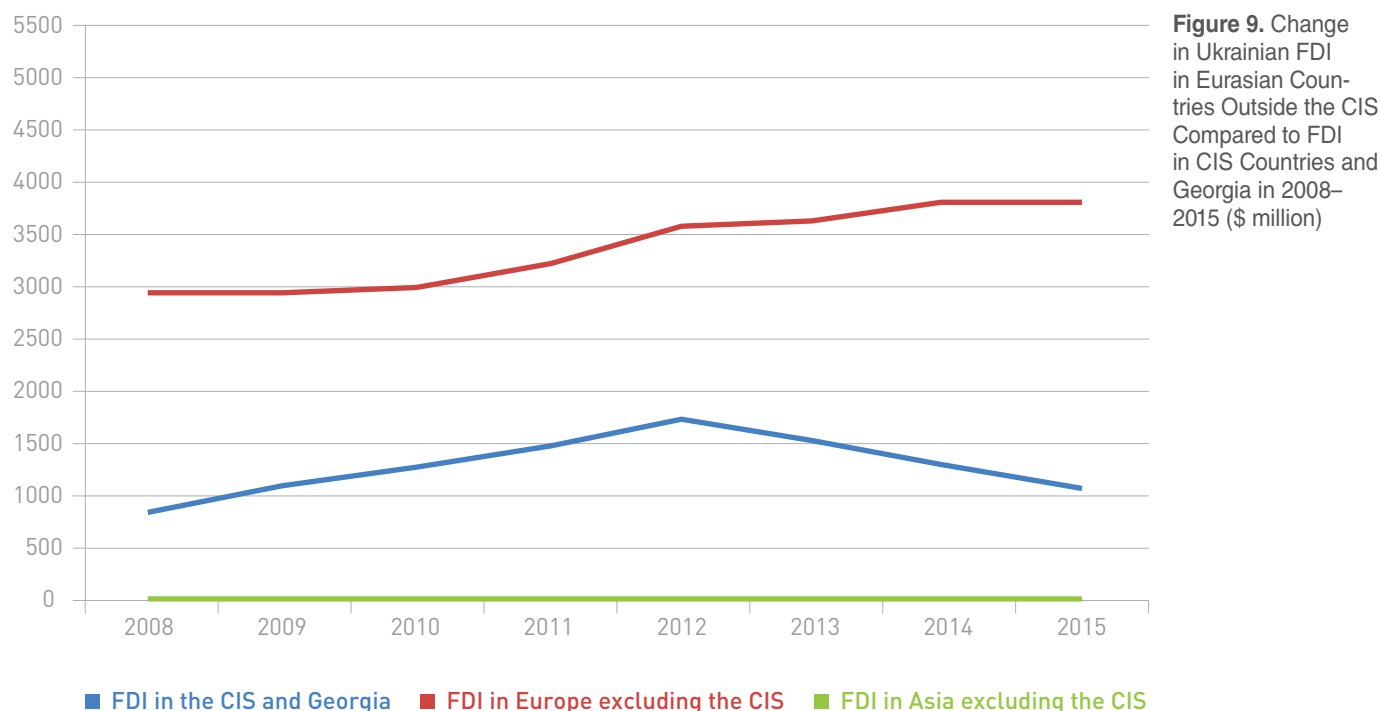
2.4. Ukrainian FDI as a Reflection of the Situation in the Country

The lack of cardinal positive changes in the economic and political domains in Ukraine has become the chief factor shaping the status of Ukrainian FDI in European and Asian countries outside the CIS in 2015 and early 2016. The current situation creates a sense of déjà-vu, bringing back memories of 2014, when Ukrainian companies suspended their direct foreign investment activities. In 2015 Ukrainian investors continued to cede ground in Eurasia, replaying the CIS trend, albeit in a somewhat attenuated form (see Figure 9). In 2013–2014 there was modest FDI growth (excluding Agriculture and Food Products and Banking), but it was replaced with a slight decrease by the end of 2015. The “margin of safety” of Ukrainian assets which represent the nucleus of many diversified structures acting as direct foreign investors has shriveled. The reasons for that include the generally adverse economic and political situation in the country and, in particular, the ongoing devaluation of the Ukrainian hryvnia and the incipient redistribution of assets among Ukrainian oligarchs. Such critical transformations take time, regardless of the identity of the ultimate owner of the assets, and virtually exclude any possibility for engaging in investment activities, especially abroad.

As a result, in 2015 Ukrainian FDI was concentrated in Eurasia outside the CIS, in about 20 countries, primarily European countries. The largest FDI stock (excluding Agriculture and Food Products and Banking) was registered in the United Kingdom, Italy, Hungary, and Poland. The sectoral structure of Ukrainian outward FDI mimicked Ukrainian international specialization, with Ferrous Metals, Mechanical Engineering, Transportation, and Oil and Gas.

Very few companies ventured into new investments, whether to support existing assets or buy new assets, and invested amounts often did not exceed \$5 mil-

2. DIRECT INVESTMENTS BY CIS COUNTRIES IN THE EURASIAN CONTINENT



lion. The challenges faced by the largest Ukrainian companies opened up new opportunities for second echelon players. Also, the critical nature of the current situation affected the distribution of investment targets, with most investors focusing on the “tried and true” allied countries, such as the Baltic states and the members of the Visegrád Four. It is through these historically affiliated territories that Ukrainian investors sought to find new consumers for their products in the territory of the EU, thereby partially making up for the loss of the Russian market. European assets, inter alia, help Ukrainian investors to circumvent EU antidumping laws and customs barriers which still remain a major obstacle to EU market entry. To reinforce their European positions, Ukrainian companies are willing to resort to a wide gamut of investment strategies, including collaboration with European manufacturers. For example, in 2015, Ukrainian and French investors jointly launched a pharmaceutical plant in Estonia.

The “loss” of foreign assets occurred not only by way of divestments (which happen even in the most propitious economic and political environment), but also as a result of crisis-driven measures, including bankruptcies and asset attachments. A good example of how Ukrainian FDI reacts to the crisis is the situation with the businesses created by A. Klyuyev and S. Klyuyev who were subjected to EU sanctions as members of the retinue of the former Ukrainian President V. Yanukovich. The actual loss of Ukrainian assets by A. Klyuyev and S. Klyuyev was accompanied by termination of their foreign activities. In particular, in the begin-

ning of 2016 the Austrian trade company owned by the Ukrainian businessmen filed for bankruptcy. A Ukrainian court attached construction assets owned by A. Klyuyev and S. Klyuyev in Austria, basically depriving them of the right to dispose of their property. In turn, in 2015 the Industrial Union of the Donetsk Coal Basin, in an attempt to overcome massive cash shortages, suspended some of its Polish operations, including electric furnace melting shops. The desperate need to replenish its operating capital forced the corporation to go even further and sell some of the lands that it owned in Poland.

To date, losses resulting from termination of foreign investment operations by Ukrainian companies in 2015 have gone beyond \$80 million, but even that relatively modest amount exceeds all new investments made during the same period.

On a separate note, it should be stressed that the complications experienced by Ukrainian foreign investors are not as sweeping as could have been expected given the initial gravity of the economic and political crisis. So far both the volume and the geographical footprint of terminated projects are fully consistent with the situation inside the country. Another proof of significant continued foreign activity of Ukrainian investors is the fact that certain projects launched in 2013–2014 in rather unlikely countries (remote and with minimal Ukrainian presence) are still extant. One such country is China, where in 2014–2015 Ukrainian companies upgraded their investment status by transforming representative offices into manufacturing facilities. This was concordant with the two countries' aspirations: China has recently stepped up its activities in Central and Eastern Europe, while Ukraine, like Russia, turned to the east in search of new partners. One of the notable Ukrainian participants of this push to the east is R. Akhmetov, the owner of the largest foreign assets among all Ukrainian oligarchs. Another unlikely Ukrainian investment destination is Norway, where K. Zhevago continues to develop his shipbuilding assets acquired back in 2013. Another crisis-inspired trend is the growing volume of investments in the IT industry: as foreign companies withdrew their offices from Ukraine, Ukrainian companies proceeded to expand their foreign units, for example, in Slovakia or, quite surprisingly, in India.

The current economic and political situation in Ukraine inevitably has led to an FDI slowdown which will persist through the next year. The ability to engage in investment activities will be retained by oligarchic clans which have found a common language with the Ukrainian authorities, while some of the large companies which have changed their owners will postpone implementation of their FDI programs by a year or two. Geographically, Ukrainian industrial companies will continue to target the EU, the locus of the country's political ambitions.

3. Direct Investments by Eurasian Countries in the Post-Soviet Area

According to the DIM-Eurasia Database, many Asian countries have already invested billions into CIS countries, and the sectoral structure of their portfolios is quite diverse and not restricted to commodity and infrastructure-centered projects. Considerable FDI originates from those EU countries which are normally perceived as “trans-shipping destinations” used by third-country TNCs to penetrate the post-Soviet area. This adds new color to the description of corporate integration in Eurasia.

3.1. Special Aspects of Chinese FDI in the Post-Soviet Area

In 2015 China continued to expand its economic presence in EAEU countries and Central Asia. Direct foreign investments play an important, but not always key role in Beijing’s well-thought-out long-term strategy designed to strengthen its position in the region. To attain that objective, China uses an integrated approach which envisages extension of soft loans (including “tied loans”); performance of contact works; FDI; trade pressure; and (in countries neighboring China) labor migration. Example: a preferential \$68 million loan offered by the Chinese Eximbank to finance construction of the Vahdat-Yavan railroad tunnel in Tajikistan on the condition that a Chinese company will be selected as the contractor for the project.

In many of China’s partner countries, such an approach results in growing unemployment among the local population, while local firms are often squeezed out of the market. Another possible outcome is a growing debt for China, as occurred in Tajikistan, Ukraine, and Belarus. Here is just one fact to prove the point: at the end of 2015, the title to eight solar power stations in Ukraine was transferred to the developer company CNBM to repay a tied loan. A different formula — “investments in exchange for natural resources” — was tested in Tajikistan: in 2014, in exchange for the construction of the Dushanbe Combined Heat and Power Plant-2 for about \$30 million, the Chinese company TBEA was granted exploration rights for two gold ore fields plus mining rights for one of those fields.

The largest share of Chinese FDI in EAEU countries and Central Asia is traditionally concentrated in Kazakhstan. The key target sector for most Chinese investors in that country is Oil and Gas which accounts, according to various estimates, for 50% to 90% of total Chinese FDI stock. The second most important target for Chinese FDI investors is the Kazakh Transportation sector. In September 2015, a Strategic Cooperation Agreement was signed envisaging joint development of Kazakh-Chinese projects in the Khorgos Special Economic Area and the SCO International Logistics Park in Lianyungang. According to the document, Beijing

intends to allocate \$600 million to finance direct investments in the Kazakh part of the Special Economic Area. At the same time, with the activation of the Chinese development framework called “One Belt, One Road,” Chinese investors are beginning to display interest in other sectors. In 2015, a total of 52 projects were selected under the joint Sino-Kazakh Investment Program. If all those projects are implemented, total investments will amount to about \$22 billion. It is expected that the bulk of investments will be made by Chinese companies and financed with the proceeds of loans to be extended by Chinese development institutions and the Silk Road Fund.

In 2015, the level of activity displayed by Chinese investors in the Russian market was not very high. There are several reasons for this. First, the bulk of major transactions were executed in 2011–2014, and they are now awaiting final implementation. Second, Chinese companies, wary of the adverse consequences of a possible breach of EU and US sanctions, have assumed a wait-and-see stance (China itself has not joined the sanctions, but Chinese companies operating in US and EU markets may become subject to them). Third, in anticipation of further deterioration of the economic situation in Russia, several Chinese investors are waiting for more enticing offers.

The following 2015–2016 transactions can be classified under “major projects”: (1) acquisition by the Chinese company Sinopec of a 10% stake in the Russian company Sibur; (2) acquisition in November 2015 by the Chinese development company Yumin of a 51% stake in the Krasnoyarsk Region Settlement Center; (3) sale of a 23.1% stake in the Russian Detskiy Mir (Child’s World) Group to a Sino-Russian Investment Fund; and (4) acquisition by a consortium of private Chinese investment funds of a 13.3% stake in the Bystrinsky Project from MMC Norilsk Nickel. There have been some failures, too. In February 2016, negotiations on a \$6 billion investment in construction by Chinese companies of a new Moscow Underground line and adjacent real properties were discontinued due to the Russian ruble devaluation and general instability of the Russian economy. In the autumn of 2015, China sold off its remaining 12.5% stake in the Russian company Uralkali. Several Chinese banks, including Bank of China, China Construction Bank, and Agricultural Bank of China decreased their presence in the Russian market.

The year of 2015 was marked by continued diversification of the sectoral structure of the Chinese investment portfolio. The share of traditional commodity projects in FDI stock is still high. Low energy prices force Chinese companies to reduce investments in geological exploration and low-return projects. Several large facilities are under construction, including a refinery in Tokmak (Kyrgyzstan), and an LNG plant in Kostanay (Kazakhstan). In 2015, construction was completed in Kazakhstan of a number of large infrastructural facilities, such as the Beineu-Shymkent-Bozoi trunk gas pipeline connecting western and southern provinces of the country, and Line “C” of the Kazakhstan-China trunk gas pipeline. In addition to that, China expressed some interest in development of the Novokonstantinovsk uranium field in Ukraine.

In recent years, China has been paying increasing attention to large-scale investment projects in Agriculture and Food Products sector of Ukraine and Kazakhstan. COFCO continues construction of a grain terminal in the Port of Nikolayev (estimated project value: \$75 million). In addition to that, in 2015 COFCO closed the purchase of the Hong Kong company Noble Agri, the owner of several agricultural enterprises in Ukraine, and now has full control of the entire grain and oil crops production chain from cultivation to finished product supplies. In this way, China has secured guaranteed delivery of deficit food products without the risk that local firms will default on their supply obligations. At the end of 2015, there were 19 agricultural projects, with an aggregate value of \$1.9 billion, being implemented in Kazakhstan with Chinese participation. The largest investments include \$1.2 billion from the Zhongfu Investment Group (oil crops processing), \$200 million from Rifa Investment (production of beef, mutton, and horse meat), and \$80 from COFCO (production of tomatoes and tomato paste).

In 2015 there was a substantial inflow of Chinese FDI into the Metallurgy and Construction sectors of Tajikistan and Kazakhstan, and (to a lesser extent) Kyrgyzstan and Russia. In particular, a cement plant with an output of 1.2 mln tons per year was launched in Tajikistan, and Kyzyl-Tashtyg Ore Dressing and Processing Plant commenced operations in Tuva. Construction of another two cement plants and an aluminum fluoride plant is under way in Tajikistan (total investment: \$390 million). Further, according to the agreements reached in 2015, two cement plants will be built in Kyrgyzstan (total investment: \$195 million), and funding will be provided for a complex ore processing plant at the Zarnisori Shimoli field in Tajikistan. There are also plans to build a series of plants in Kazakhstan, including a steel foundry, a copper smelter, a cement plant, an aluminum plant, and a complex alloys plant (total investment: more than \$1.5 billion). To sum up, China is moving to a new investment level: where in the past it was primarily interested in raw materials, now other countries are interested in (and later may become dependent on) its technologies, loans, and investments. This shift has become possible due to a balanced integrated position of the Chinese government.

3.2. Investment Cooperation of CIS Countries with Japan and South Korea

At the end of 2015, China had the largest FDI stock in EAEU countries, Azerbaijan, Tajikistan, and Ukraine of the 11 European and Asian countries under review; in terms of FDI in Russia, however, it comes only sixth. Japan came in first place, overtaking even the Netherlands (see Table 5).

The highest level of Japanese investment activity in 2015–2016 was registered in Russia and Ukraine. As for the other EAEU countries and Central Asia, Japanese companies have assumed a wait-and-see stance, and are now busy sizing up the most promising economic projects. In particular, in Russia in 2015, Fujikura

Automotive RUS Cheboksary LLC opened a Japanese plant which specializes in manufacturing Volkswagen car cables. Total investment amounted to \$6 million. The Japanese fund Mitsui & Co invested \$1.3 million in the Russian ChefMarket cooked-food delivery service.

In Ukraine, Japanese investors targeted primarily production of automotive parts and construction of sewage treatment facilities. In the other countries, new investment projects are now at the discussion stage. For example, in Kazakhstan, negotiations are under way to approve 10 investment projects with Japanese capital participation for a total amount of about \$700 million; for the time being, however, Japanese FDI stock in that country (according to DIM-Eurasia) stands at only \$25 million. In Kyrgyzstan, Japanese investors may become involved in modernization of International Airport Manas (\$16 million), selective reconstruction of the Osh-Batken-Isphana Highway (\$117 million), and modernization of an agricultural machinery park. In Belarus, Japan is considering investment in the IT sector.

In Tajikistan, Japanese involvement is likely to take the form of grants (for example, a \$17.5 million grant to finance reconstruction of the international airport in Dushanbe) rather than FDI. Armenia at this point in time does not have any Japanese FDI at all (according both to official and DIM-Eurasia statistics).

The interests of South Korean TNCs in the post-Soviet area are also linked primarily to Russia. At the end of 2015, FDI in Russia accounted for more than \$2.1 billion, or 84% of total South Korean FDI stock in all eight CIS countries under review. The main investors are the car maker Hyundai Motor Company, the diversified conglomerate Lotte (focusing primarily on real estate), and the electric equipment manufacturers Samsung Electronics and LG Electronics. Notably, most South Korean FDI was made in the European part of Russia, while the largest project in the Russian Far East is the acquisition in 2011 of a 10% stake in, and subsequent investments in the modernization of the Khabarovsk airport by Incheon International Airport Corporation which, according to our estimates, reached \$32 million by the end of 2015.

Kazakhstan was the second-largest (after Russia) recipient of investments from South Korean TNCs, with two South Korean banks (Shinhan and Kookmin) being accountable for more than half of total FDI stock, while Lotte Group made a sizeable capital contribution to a confectionery. Significant South Korean FDI was also registered in Ukraine (Samsung Electronics).

During the period from 2015 to 2016, the only new South Korean project in the CIS was launched in Azerbaijan; the project involved the opening of an e-government training center in Baku and 15 other regions of the country, and was below the minimal \$3 million threshold.

In 2015 and early 2016, mass media failed to report the launches of new enterprises in Russia, Belarus, Armenia, Kazakhstan, and Tajikistan. With respect to Russia, this situation can be explained by the fact that, even though South Korea has not formally joined the sanctions regime, on an informal level South Korean

3. DIRECT INVESTMENTS BY EURASIAN COUNTRIES IN THE POST-SOVIET AREA

FDI Source Country	FDI Stock at the end of 2009, \$ billion		FDI Stock at the end of 2011, \$ billion		FDI Stock at the end of 2013, \$ billion		FDI Stock at the end of 2015, \$ billion	
	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR
Japan	9.87	1.24	11.15	1.88	14.35	1.68	14.47	1.32
Netherlands	9.22	33.29	10.72	54.10	11.51	64.54	11.44	40.37
India	5.08	0.14	4.92	0.15	5.84	0.15	5.80	0.07
Austria	3.81	7.22	4.93	8.24	6.79	.21	5.21	5.54
Turkey	2.64	0.60	3.13	0.79	5.12	0.76	4.89	0.75
China	0.58	1.25	0.80	1.39	3.82	4.55	3.38	1.69
South Korea	1.42	1.15	1.75	1.00	1.90	1.89	2.12	1.32
Singapore	0.07	0.12	0.12	0.18	0.54	0.19	0.69	0.56
Vietnam	0.39	0.24	0.50	0.40	0.65	0.35	0.59	...
UAE	0.00	0.07	0.00	0.09	0.00	0.18	0.36	0.21
Iran	0.04	...	0.09	...	0.06	...	0.04	...

Table 5. Comparison of DIM-Eurasia and CBR data on FDI Stock in Russia

Sources: the DIM-Eurasia Database and CBR (2016a).

business has assumed a wait-and-see stance. In Ukraine, South Korean businessmen are considering investment in construction and expansion of LNG terminals, grain terminals in marine ports of Odessa Region, and joint South Korean-Ukrainian production of high-speed trains. South Korean FDI may also come to Kyrgyzstan whose businessmen are willing to engage in cooperation and invest in manufacturing of textiles and medical products.

3.3. Special Aspects of Capital Investments Originating from Singapore and Vietnam

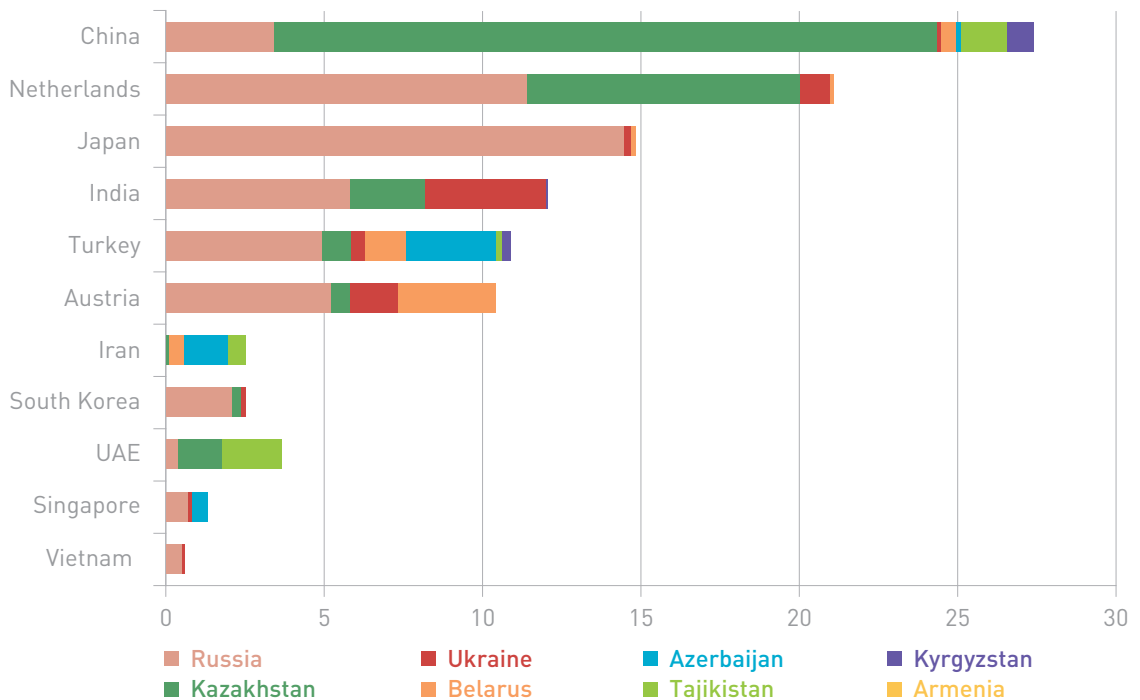
Of the Asian countries under review, Singapore and Vietnam come last in terms of FDI stock in the CIS. Thus, by the end of 2015, Singaporean direct investment stock approached \$1.3 billion — a figure that is more than three times higher than it was at the end of 2011, and more than 10 times higher than it was at the end of 2008. Vietnamese FDI by the end of 2015 reached \$0.6 billion, having somewhat decreased over the last two years; it should be noted, however, that compared to 2011 that indicator has increased by more than 17%, and compared to 2008, by a factor of 1.5.

Still, analysis of Singaporean and Vietnamese FDI is very important for understanding corporate integration in Eurasia. Singapore is one of the largest capital exporters with a 2015 year-end global FDI stock of \$625 billion (UNCTAD, 2016). The growing interest that Singaporean TNCs show in the CIS (not only

Russia, but also Azerbaijan, Ukraine, and other countries) creates an opportunity to realize, over the course of the next several years, a huge potential in terms of attracting additional foreign capital investments which, judging by the amazing technological breakthroughs made by that Southeast Asian island state, will probably target the most sophisticated industries. For now, we can single out Singaporean FDI in shipyards manufacturing offshore oil and gas production equipment. On the other hand, the bulk of FDI ended up in Azerbaijan, whereas the project envisaging reconstruction of the Astrakhan plant Krasnye Barrikady (Red Barricades) never took off, and the project in the Kazakh town of Aktau was sold off in 2013 after a 10-year successful run.

As for Vietnam, the CIS has always been the traditional investment target for that country. The eight post-Soviet countries under review currently account for 7% of total Vietnamese FDI in all countries of the world, as opposed to, for example, 2.7% of total Chinese FDI stock or 0.9% of total South Korean FDI stock. At the same time, it should be emphasized that for now almost all Vietnamese FDI in the post-Soviet area is concentrated in Russia, specifically, in the Agriculture and Food Products, Construction, and Oil and Gas sectors. The DIM-Eurasia Database also contains records on a couple of small agricultural projects in Ukraine. No other Eurasian company under review (with the exception of Japan) has such high FDI geographical concentration in the post-Soviet area (see Figure 10).

Figure 10. Geographical Priorities of Eurasian Investors in the EAEU, Azerbaijan, Tajikistan, and Ukraine at the End of 2015 (FDI Stock, \$ billion)



3.4. Indian FDI: Focus on Oil and Gas

For a long time, Indian investors' interest in CIS countries was limited to three sectors: Ferrous Metals, Oil and Gas, and (with a wide gap) Chemical (primarily, Pharmaceuticals Production). Almost all Indian direct investments were shared between three countries: Russia, Ukraine, and Kazakhstan. In Russia, most capital investments were made by the state oil and gas company ONGC Videsh. In Ukraine and Kazakhstan, the main investor was ArcelorMittal, a TNC registered in Luxembourg and controlled by Indian capital. Only a few projects were implemented in the pharmaceutical industry, traditionally one of the leading industries of the Indian economy. The largest of those projects (in terms of the volume of investments) were construction of the Kusum Pharm plant in Ukraine, and Hetero Drugs investments in the Makiz-Pharma plant in Russia. The presence of Indian business in the other sectors remained insubstantial. For example, in Finance, Indian investors were represented only in two countries covered by our monitoring (Kazakhstan and Russia), and ICICI Bank Eurasia, the Russian subsidiary of ICICI Bank, was sold to Sovcombank in 2015. Investments in the other sectors, sometimes quite successful (e.g., acquisition of the Volga Abrasives Plant by Cumi International), were few and far between.

In the mid-2010s, Indian capital investments in CIS countries were impaired by the operation of two negative factors: first, deterioration of the economic situation in the region and contraction of solvent demand, resulting in investors losing interest in domestically-oriented industries of the economy; second, an extremely unfavorable price environment in the rolled stock market. Over the last several years, we have seen gradual impairment of metallurgical assets in Ukraine and Kazakhstan. After ArcelorMittal sold off its Russian mining assets (mines in the Kemerovo Region) in 2014, the mass media circulated rumors about possible withdrawal of that company from the CIS. Today its official representatives say that it does not intend to shed its Ukrainian and Kazakh units, but further investments into modernization of production facilities may be in question. In mid-2015, Ukrainian authorities promised that over the next several years ArcelorMittal would invest \$1.2 billion in the metallurgical plant in Krivoy Rog; however, those plans may be frustrated by the difficult financial position of the company.

A completely different picture can be observed in the CIS Oil and Gas sector which in 2015–2016 held the leading position in terms of both the volume of investments and the number of new projects with Indian capital participation. As before, the largest capital investments came from ONGC Videsh: in 2015 it invested \$150 million in exploration drilling in the Satpaev block in Kazakhstan (total project investment: \$400 million), and in 2016 it purchased from Rosneft a 15% stake in Vankorneft, the operator of the Vankor oil and gas field in Krasnoyarsk Region (purchase price: \$1.27 billion). In addition to that, back in 2012 ONGC Videsh became a minority owner of several assets in Azerbaijan (2.72% stake in the Azerbaijani-Chirag-Gunashli field; 2.36% stake in the Baku-Tbilisi-Ceyhan pipeline) for about \$1 billion.

The second-largest Indian investor in Oil and Gas is Oil India which in 2014 purchased from the Irish company PetroNeft a 50% stake in Stimul-T LLC, the holder of the E&P license for the Tungol field in the Tomsk Region. In the middle of 2016, Oil India, acting as a member of a consortium created with two other Indian companies — Indian Oil and Bharat PetroResources — signed a sale/purchase agreement for a 23.9% stake in Vankorneft (the price of the transaction was estimated at \$2.1 billion). Together with ONGC Videsh investments, the share of Indian companies in the project reached 38.9%.

Investment expansion of Indian energy corporations in the CIS can be attributed to the fact that, with depressed oil prices and devaluation of national currencies, there emerged a window of opportunity giving them a chance to purchase production companies at relatively low prices. Prompt deal-making is, to a considerable degree, facilitated by the weakening of competition on the part of western companies. This is especially true for Russia, where the government, driven by sanction-related restrictions and the worsening relations with the EU and the US, is striving to bring in investors from China, India and other Asian countries, offering them favorable energy project entry terms. The deals listed above are likely to be followed by more Indian corporate investments. It is not clear, though, whether other economic sectors of CIS countries will get similar attention.

The growth of Oil and Gas investments and impairment of metallurgical assets have changed the geographical structure of Indian capital investments. According to the data available in the summer of 2016 (inclusive of investments in the Vankor field), Russia was the undisputed leader among the post-Soviet countries with \$9.1 billion, or almost 60% of the total value of monitored Indian projects.

3.5. Prospects of Investment Cooperation between Iran and CIS Countries

In the early 2010s, one of the key factors affecting expansion of investment relations between the Islamic Republic of Iran and CIS countries was the economic sanctions imposed on Iran for implementation of its nuclear program. The effect of that factor was dual. On the one hand, the freeze imposed on the accounts of the largest Iranian companies greatly reduced their financial abilities and, as a result, they refrained from starting new investment projects and delayed completion of existing investment projects. On the other hand, deterioration of the economic situation in Iran forced many entrepreneurs to relocate their business to foreign countries and look for ways to circumvent restrictions on financial operations, among other things, through numerous banking structures created in the post-Soviet area. The sanctions period was also the period of maximum expansion of economic ties between Iran and Belarus which became the second-largest recipient of Iranian investments among CIS countries (after Azerbaijan). In Tajikistan, sizeable investments were made by the Iranian billionaire B. Zanjani who has been the subject of a criminal investigation initiated in Tehran in 2013. According to the information obtained from open sources (and not corroborated by Tajik

authorities), his total investments in transport infrastructure, banking, and other industries of the Tajik economy stand at not less than \$250 million.

The partial lifting of sanctions from Iran after the signing in July 2015 of a multilateral agreement between Russia, USA, China, France, UK, and Germany will certainly encourage further penetration of foreign markets by Iranian investors. But how attractive will they find CIS countries? Our analysis of direct investments coming from Iran in 2015–2016 shows that the conclusion alleging a rapid increase of Iranian FDI in the region is rather premature. At the end of 2015, total Iranian direct investments in five EAEU countries, Tajikistan, Azerbaijan, and Ukraine amounted to \$2.56 billion, remaining almost flat year-on-year (with an increase of merely \$88 million).

The bulk of Iranian FDI stock (almost 59%) is centered in Azerbaijan which previously was not covered by the DIM-Eurasia project. Almost all investments in that country are associated with the development of the Shah Deniz field, in which Iranian companies hold, in the aggregate, a 10% stake.

The second position is held by Belarus which at the end of 2015 accounted for almost 20% of the total Iranian direct investments in monitored countries, or as much as Russia, Ukraine, Kazakhstan, Kyrgyzstan, Tajikistan, and Armenia taken together. At the same time, just as we projected in our previous report, development of investment cooperation between Belarus and Iran has decelerated, and now exists primarily in the form of additional investments into existing projects (EDB Centre for Integration Studies, 2015). Additionally, over the last two years, the dollar value of a number of assets has decreased due to devaluation of the Belarus ruble (this is particularly noticeable in the banking sector).

The third position belongs to Tajikistan, a country which is geographically and culturally close to Iran: its share is estimated at almost 18%, including Babak Zanjani projects (information related to those projects needs to be reviewed and adjusted).

Several recent trends indicate that in the next few years, distribution of Iranian investments between CIS countries may undergo considerable changes. The first of those trends is the emerging stagnation in investment cooperation between Iran and its two main recipients — Belarus and Tajikistan. For example, Belarus has reported a deceleration of construction and development projects, which is not surprising taking into consideration the fact that the country is going through an economic recession. In Tajikistan, where implementation of the key investment projects (such as reconstruction of the Istiklol tunnel and construction of the Sangtuda-2 hydroelectric power plant) proceeded under the umbrella of inter-governmental agreements, the slowdown could be ascribed to unsettled political differences between the two countries and adverse changes in the business environment, as noted by Iranian entrepreneurs.

The second trend is the recent thaw in relations between Iran and Azerbaijan which could result in investment cooperation, previously restricted to Oil and Gas, being expanded to the other sectors of the economy. For example, in 2016 the two countries created a joint venture named Azetrocar which plans to invest \$25 million into the manufacture in Azerbaijan of passenger cars and spare parts.

Finally, the third notable trend is the emergence of investment projects in countries which in the past were not regarded major Iranian FDI recipients. For example, negotiations are underway in Kazakhstan with respect to new capital investments in Agriculture and Food Products (animal farming, meat processing, grain elevators). In Russia in 2016 the Federal Antimonopoly Service satisfied the application filed by Nasim Bahr Kish for the acquisition of a 53% stake in OJSC Astrakhan Port, an asset which has been closely monitored by several Iranian companies for the last five years.

3.6. UAE Investment Policy in CIS Countries

UAE investment policy reflects the country's main foreign policy strategic vectors: strengthening its role in the Muslim world, and expanding its economic and trade influence in the capacity of an active player in the areas of marine and river transport, as a reliable banking partner which remains a guardian of Islamic banking and finance traditions, and as a quality manufacturer of halal products.

Natural and geographic conditions of the United Arab Emirates prompt the country's leaders to look for special ways to build economic and political stability. With modest territorial and labor potential, the government is actively investing oil revenues in vital industries with a view to accelerate the country's economic growth and strengthen its global political position.

For the UAE, the sea is the main gateway to the world. For that reason, its development and welfare depend on the state of its marine transport and port facilities. The company DP World has a well-deserved reputation of a reliable and actively growing business partner for many large transportation companies. There is a lot it can offer to its Russian partners. In 2016, it created a joint venture in Krasnodar Region with total investments anticipated at about \$2 billion, which makes the project the largest one in the territory of Russia.

The ongoing monitoring of foreign economic cooperation between Russia and the UAE, and continued search for interesting and profitable business ideas for joint projects remain strategically important factors affecting the inflow of mutual investments. A good example of the two countries' mutual interest in implementing large-scale investment projects is the creation in 2013 of a \$2 billion joint fund sponsored by the Russian Direct Investment Fund (RDIF) and the UAE Sovereign Wealth Fund Mubadala. The main objective of the new fund will be the implementation of joint investment projects in the territory of the Russian Federation.

The Russian Direct Investment Fund and the port operator DP World from the UAE plan to invest \$2 billion in Russian ports and Russian transport and logistical infrastructure facilities. The parties have established a joint venture called DP World Russia, where the Russian fund will own a 20% stake, with the rest held by the Arab company. The JV is most likely to engage in projects in the Black Sea, the Baltic Sea, and probably in Vladivostok.

The UAE Sovereign Wealth Fund Mubadala seeks to actively invest in various sectors of the Russian economy, including Telecommunications — Mubadala is one of the bidders for the acquisition of VimpelCom's tower infrastructure (about 10 thousand towers) — and Oil and Gas — the fund plans to invest up to \$7 billion in development of fields in the territory of the Russian Federation (including the Nazym field, where Mubadala's share exceeds 25%). In the beginning of 2016, the Nazym field (C1 reserves: 4.5 million tons; C2 reserves: 53 million tons) was purchased by a consortium of companies. In the autumn of 2015, Mubadala Development (a Mubadala subsidiary) together with RDIF and a number of other investors acquired from Sibur a liquefied hydrocarbon gas transshipment terminal (capacity: 4 million tons per year) in the Port of Ust-Luga. The Arab company's 51% stake was acquired for about \$360 million. The Fund is also interested in the development of the Russian Construction sector: in March 2016, Mubadala Development and RDIF bought two warehouses (total floor area: 200,000 m²) in the vicinity of Moscow from RNK for \$100 million.

The main barriers to capital investments in the Russian economy by Emirate companies are inferior infrastructure, excessive risks and administrative pressure, and lack of information about profitable investment projects.

In turn, over the last several years (during the Arab spring and the war in Syria), Russian companies — which mostly suggest large-scale projects — have had reservations about the spread of instability in the region, and have done their best to complete existing oil and gas as well as metallurgy projects and replace them with more cost-effective and risk-free investment alternatives. The latter include, for example, production and modernization of electric vehicles, or construction of Li-On batteries. One of the high-potential areas of possible expansion of investment cooperation is represented by implementation of state-of-the-art Russian water desalination technologies. The Russian company Promeco has been granted exclusive rights for the installation of a desalination plant manufactured in Russia, and the license to produce and sell fresh water in the UAE. Implementation of that technology will make it possible to reduce fresh water production costs by several times, increase desalination process efficiency, and improve related environmental metrics. In the future, the technology may be used to modernize all UAE desalination plants.

In general, Russian-UAE investment relations are sustainable and diversified. The UAE strives to invest in various sectors of the Russian economy, particularly those where Arab investors have an extensive track record, and are ready to employ unconventional project implementation methods. With its limited territorial resources, the UAE has managed to develop unique construction, port management, transportation, and agricultural production technologies. The new technical solutions will, no doubt, come in handy in Russia which can implement and use those innovations to assure efficient development of the country's regions.

There is one more reason for the UAE's warm relations with Russia, and why it is so eager to cooperate with Russian businessmen — the unique strategy pursued by the

Russian government to ensure fair political representation of various ethnic and confessional groups in a country where the Muslim population plays a very special role. This gives the UAE an opportunity to increase supplies of its food products to the Russian market (its immediate plan includes construction of plants to produce halal foods which, due to their superior quality, enjoy high demand not only among Muslims, but also among other groups).

The UAE has made a vigorous entry into the Kazakh domestic market. The fact that the majority of the country's population consists of Muslims encourages UAE investors to engage in systemic large-scale investments in the territory of Kazakhstan.

Recently, a joint investment fund was created called Falah Growth Fund (the "Fund"). The Fund is ready to consider investment projects throughout the CIS, but will give priority to Central Asian countries, especially Kazakhstan. The Fund will focus on oil and gas and other natural resources, electric power and other infrastructural projects, manufacture of food products, and real estate. In August 2015, the Fund exited from Karaganda Energocenter LLP. The Fund's investments had been used to build up the capacity of Karaganda Combined Heat and Power Plant No. 3, boosting power generation by 120 MW and increasing installed capacity to more than 700 MW. Expansion of the facility will create new jobs, minimize power shortages, and have an overall salubrious effect on the economy of the region. It was agreed with Kazakh Utilities LLP that the Fund would invest \$50 in expansion of Karaganda Combined Heat and Power Plant No. 3 operated by Karaganda Energocenter LLP. It became the first joint project implemented by the Fund and the Kazakhstan Development Bank (KDB).

UAE investors are also involved in the construction of the Abu Dhabi Plaza multi-purpose compound in Astana. Construction started in November 2010, and is scheduled to be finished by the end of 2016. When completed, the building will be the highest in Kazakhstan and in all of Central Asia (88 levels; height: 382 meters; floor area: 510,000 m²). With its cutting-edge power supply and environmental protection technologies, the compound, the first of its kind, will house a hotel, residential apartments, and numerous retail outlets and offices. At this time, this is the largest announced UAE investment project (\$1.6 billion).

One of the most interesting UAE investment projects is the Islamic bank Al Hilal, the first such bank in the CIS and Kazakhstan. The bank was opened in 2010. It currently has two branches (one in Astana and one in Shymkent), and its head office is situated in Almaty. The original intention was for the bank to establish business relations with state-owned, quasi-state-owned and large private companies, and offer them innovative Islamic financial solutions to meet their large infrastructural project and corporate transaction funding needs. In the future, the bank is going to propose a broad spectrum of retail Islamic products designed for the banking sector. The Islamic Bank will certainly become an important "bridge" that will be used by Arab capital to extend its presence to the other CIS countries. The operations of the bank will, undoubtedly, attract other Arab investors (including those from Per-

sian Gulf states) and guarantee successful implementation of new investment plans in Kazakhstan. The UAE's interest in capital investments in the Kazakh economy testifies to the fact that CIS countries are becoming more and more attractive to partners from the Persian Gulf. Persian Gulf states are experiencing rapid growth, which opens up new vistas for investors from CIS countries.

The mass media offer little information on specific UAE corporate investment projects in Azerbaijan, despite the numerous publications announcing that both the number of investors and the volume of their investments are growing. According to the latest data, Azerbaijan has attracted 223 UAE companies with aggregate FDI of \$659 million (Minval.az, 2016). Considerable UAE investment in Azerbaijan is also reported by IMF (2015). However, these are either small intermediary firms, or Azerbaijani companies or third-country TNCs using the offshore opportunities offered by the UAE.

Companies from the UAE are constant participants of various presentations in Azerbaijan. Such firms are numerous and come from all sectors, including construction, manufacture of food products, banking services, etc. The absence of specific projects and publications on implementation of possible business ideas and, at the same time, disclosure of the exact number of Emirate companies operating in Azerbaijan testify to the fact that UAE investors are willing to invest into the Azerbaijani economy; the number of companies represented in the country is always growing, but they have not yet found specific projects that would be interesting for them, and would generate meaningful profits.

In connection with that, it should be noted that Emirate companies are ready to invest in well-prepared projects, but are not willing to start their greenfield investment campaigns. On the one hand, this means that Persian Gulf investors are extremely cautious and, having only recently unleashed their global investment rush, do their best to minimize their exposure by carefully investing in proven profitable projects. On the other hand, the UAE has scored impressive successes in the construction and banking sectors, marine transportation and port management, which makes Emirate investors capable of offering their CIS partners a fresh "oriental" business perspective and innovative technologies.

One of the obstacles hampering UAE investment initiatives is the lack of good-quality information on economic opportunities offered by Russian regions and CIS countries. This problem is partially attributable to the sluggish introduction of English versions of websites and programs developed by various companies from Russia and other CIS countries. Russian companies and their CIS partners should be more proactive in advertising and promoting their products, and vigorously expand their contacts with foreign investors, making ample use of English-language guides and presentations. We also hope that Russian investors will review their overly rigorous discretion standards when dealing with Persian Gulf states, as successful implementation of a series of large-scale projects in those countries will give them a chance not only to penetrate the multi-million Arab and Muslim markets, but also advance into Africa and further to the East (to Iran and India).

3.7. Turkey as One of the Leading Investment Donors of CIS Countries

At the end of 2015, Turkey, despite the operation of a number of negative factors, such as the recent crisis in relations with Russia and the worsening macroeconomic indicators in most CIS countries, remained one of the largest (among Asian countries) FDI exporters into the monitored countries of the post-Soviet area. According to our research, at the end of 2015, total Turkish FDI stock in EAEU countries, Ukraine, Azerbaijan, and Tajikistan amounted to \$10.6 billion, a less than 1% decrease relative to 2014.

Stability of investment flows originating in Turkey is largely attributable to the high diversification of Turkish FDI. Projects with Turkish capital participation were registered in all of the countries listed above, with the exception of Armenia, and the number of such projects is constantly growing and approaching one hundred. Russia accounts for about half of known transactions, and almost 45% of total Turkish FDI stock. Other countries, especially Azerbaijan, Belarus, and Kazakhstan, can also be classified as major Turkish investment recipients, and in per capita terms they get even more Turkish capital than Russia.

Another important feature of Turkish FDI is its impressive sectoral coverage: capital of Turkish origin is represented in almost all recipient sectors. The largest of those in terms of FDI value (but not in terms of the number of projects) is Oil and Gas whose prominent position is attributable to participation of the oil and gas corporation TPAO in the development of the Shah Deniz field in Azerbaijan. It should be noted, however, that the Turkish company became a majority shareholder of the project only in 2014, when it paid \$1.5 billion for the 10% stake previously owned by the French Total SA. Prior to that, TPAO owned only 9% of the Shah Deniz Consortium shares, i.e. was a portfolio investor. At the end of 2015, the share of Oil and Gas in Turkish investments in the countries of the region amounted to 24.4%; however, if we combine Shah Deniz investments with those in other projects where Turkish companies act as minority portfolio investors, that share will become considerably higher.

The Agriculture and Food Products sector comes second in terms of its share in total investments with 20.7%, and is mostly represented by Anadolu Efes investments in production of beer and soft drinks in Russia and Kazakhstan. Until recently, that Turkish company also owned production facilities in Ukraine, but at the end of 2015 operations at those facilities were suspended due to the military and political events in the country.

Everyone seems to have heard something about the numerous construction projects, but in reality they account for only 16.8% of total FDI stock, as most Turkish construction companies work in the CIS as contractors, and not as investors. Besides, out of almost \$2 billion invested in the sector, \$133 million went into production of construction materials, rather than into construction and development. As for developer projects, one of the notable capital investors is Renaissance Development which, despite the adverse price environment in the real estate market, continues to invest in

construction of commercial and residential properties in Saint Petersburg, Moscow, and a number of other constituent entities of the Russian Federation.

Finally, the fourth position (with 11.9%) is occupied by Communication and IT, mostly based on Turkcell investments into the Belarus company CJSC BeST and the Ukrainian company Astelit LLC, both offering mobile communication services under the lifecell brand. The share of Communication and IT in total FDI stock is gradually shrinking due to the economic slowdown in Ukraine and Belarus, but Turkish companies are still keen on strengthening their positions in that sector, as attested by the fact that in 2015 Turkcell consolidated a Ukrainian asset, 45% of which had been previously controlled by Rinat Akhmetov's SKM Group.

The other processing industries in seven CIS countries have received relatively small investments from Turkey (see Figure 11), although certain industries, such as Wood Processing and Production of Woodworks, Production of Pulp and Paper, and the Production of Glass show fairly good results (investments in each of those industries range from \$200 million to \$450 million).

Among all Turkish investment targets, Finance warrants special mention. Turkish corporate capital investment stock in banking and insurance is relatively unimpressive: in 2015 it was merely \$333 million. Those investments, however, are numerous and present in Azerbaijan, Kyrgyzstan, Ukraine, and Russia (which is home to Credit Europe Bank, one of Russia's top 100 banks by asset value,

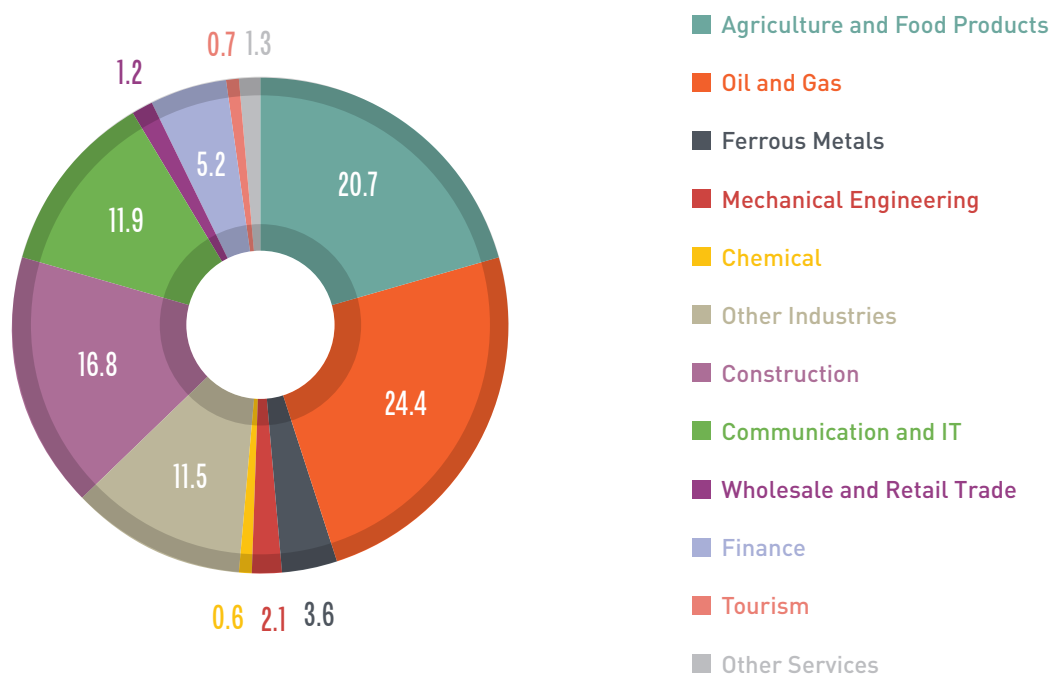


Figure 11. Sectoral Structure of Turkish FDI Registered in the DIM-Eurasia Database (End of 2015, %)

which is controlled by Turkish businessmen through the Dutch company Credit Europe Bank N.V). A similar situation can be observed in Wholesale and Retail Trade which, despite the gradual withdrawal of Migros (Ramstore network) from CIS countries, still remains attractive to Turkish business. Thus, in 2014–2015 LC Waikiki – which, unlike many other Turkish companies, conducts its foreign operations not under franchise agreements, but as an independent investor – rapidly expanded its networks in Russia, Belarus, Kazakhstan, Kyrgyzstan, Azerbaijan, and Ukraine.

Any review of Turkish investments in late 2015 – early 2016 would be incomplete without a look at the aftermath of economic sanctions imposed by Russia on Turkey in the wake of the downing of a Russian bomber in the sky above Syria. Two things proved to be most painful for Turkish companies. First, restrictions were imposed on performance of certain works (provision of certain services) in the territory of the Russian Federation by entities registered in the Turkish Republic. Second, as of January 1, 2016, employers not included on a special list (the so-called “White List”) were prohibited from hiring Turkish citizens (with the exception of those who had already been working under labor contracts with such employers as of December 31, 2015).

It should be noted that those sanctions affected mostly small companies, while the leading Turkish investors and contractors, including the aforementioned Renaissance Development which had been heavily involved in a number of large-scale Russian construction projects, were included on the “White List.” As a result, the sanctions had little, if any, effect on ongoing projects, but they did force Turkish companies to abandon new investment projects. One of the abandoned projects was the construction by Elite World Hotels of two hotels in Saint Petersburg for an estimated \$240 million. Restrictions on Turkish imports inflicted damage on subsidiary banks specializing in provision of banking services to Turkish companies.

At the same time, the sanctions were but one of several reasons for the reduction of Turkish FDI stock in Russia in 2015 (by 1.1% compared to 2014). Another important factor was the stagnation of the Russian economy which affected not only Construction, but also other sectors traditionally targeted by Turkish investors. For example, production of rubber automotive parts organized by Teklas Kaucuk A. S. in Mari El was discontinued even before the Russian-Turkish crisis; those products are currently manufactured at a similar plant in Bulgaria. In 2016, the same thing happened to Vestel-SNG LLC (a household appliances manufacturer) in the Vladimir Region: according to the company’s Turkish spokesman, the plant’s closure was caused only by the deterioration of the economic situation in Russia. Apparently, the normalization of relations between Russia and Turkey which started in the summer of 2016 cannot, in and of itself, assure inflow of new investments from that country. In all probability, over the short-term horizon investment cooperation between Russia and Turkey will rely mostly on existing investment projects, which may, in the foreseeable future, result in a reduction of Russia’s share among recipients of direct investments from Turkey.

3.8. The Netherlands: “Trans-Shipping Destination” and Real Investor into EAEU Countries, Azerbaijan, Tajikistan, and Ukraine

At the end of 2015, De Nederlandsche Bank estimated the volume of Dutch investments in EAEU countries, Azerbaijan, Tajikistan, and Ukraine at €101.6 billion, or \$123 billion (De Nederlandsche Bank, 2016). According to our monitoring, that figure is only \$21.1 billion. Statistical and actual indicators differ by a factor of almost 6, highlighting the role of the Netherlands as a “trans-shipping destination” for funds owned by CIS companies and used for investing in third countries.

The main sources of capital investments — which only nominally can be described as Dutch investments — are subsidiaries of large Russian, Ukrainian, and Kazakh companies registered in the Netherlands and used to execute investment deals in third countries. For example, Gazprom’s Dutch assets include Gazprom Holding Cooperatie U.A., a cooperative made up of five Gazprom subsidiaries operating in the Netherlands, and Gazprom EP International which manages Gazprom’s foreign assets associated with hydrocarbon production. LUKOIL, Novatek, Rosneft, Gazprombank, Mechel, KamAZ, Kazakh companies Mangistaumunaigaz, Caspiy Neft, AK Altynalmas, Kazakhtelecom, Logicom, and many other companies also have financial subsidiaries in the Netherlands. According to the OECD, the Netherlands has registered the second-largest (after Luxembourg) number of “special purpose vehicles” (i.e. subsidiary companies which are not engaged in core operations in the country of their registration, and are used instead to conduct financial operations, receive interest and royalties, and pay taxes) (OECD, 2015). About 80% of inbound investments are transit investments which, when they eventually wind up in third countries, cannot be deemed to constitute Dutch capital investments in the true meaning of the word.

The presence of the Dutch “real” capital in EAEU countries, Azerbaijan, Tajikistan, and Ukraine in 2015 was qualified by the crisis which, in one or another form, affected all countries in the region. Considerable devaluation of national currencies of recipient countries led to an impairment of certain assets. As a result, total Dutch FDI in the countries of the region in 2015 considerably increased relative to 2014 exclusively due to acquisition of a stake in the Kazakh Karachaganak project, which vested in Royal Dutch Shell after it had purchased the British BG.

On the other hand, in some cases the devaluation of the national currency catalyzed additional investments. This is primarily true for the Russian production sites of such companies as Unilever, Heineken, and other consumer goods manufacturers. The cost of Russian-based production, considerably reduced as a result of the weakening of the local currency, prompted investors to expand production facilities and export their goods to third countries. In 2014 this was only a nascent trend, but by the end of 2015 it yielded tangible fruit. For example, Unilever completed construction of a food cluster in Tula, after having invested more than \$170 million in that project. Then it started to export the products manufactured at the newly-built facility to Latin America, Asia, and the EU.

Another consequence of the crisis was acquisition of assets at greatly reduced prices for subsequent resale. This trend was especially pronounced in Ukraine. For example, the Dutch holding RadioCorp purchased the Ukrainian radio station GalaRadio with a significant discount and good prospects of profitable resale at a more opportune time in the future.

Due to the general economic and political instability, large companies chose to abandon risky projects. This pertained, first and foremost, to oil and gas projects. For example, Royal Dutch Shell preferred to withdraw from a shale gas production project in Ukraine (Yuzovka gas field), to be replaced by an SPV called Yuzgaz, also registered in the Netherlands (information regarding the source of its capital was not disclosed).

Finally, we saw an invasion by relatively small agricultural producers from the Netherlands into Russia and Ukraine, driven by devaluation of national currencies and transition to the policy of “import replacement” in Russia. Most of those projects are quite local, and investments involved are in each case well below one million dollars.

3.9. Special Aspects of Austrian FDI Attributable to the “Trans-Shipping Destination” Status of Austria

In 2015, Austrian FDI in EAEU countries, Azerbaijan, Tajikistan, and Ukraine decreased by more than 10% for the first time in eight years, down almost to the same level that was registered five years ago. That happened not only because of the Russian ruble devaluation, general problems in the Russian economy, and the unfavorable political and economic situation in Ukraine (all of which are relevant, as in 2015 Ukraine and Russia together accounted for about 63% of total Austrian FDI stock), but also because of the nature of Austrian investments: a considerable share of investments from that country represents investments by companies from recipient countries which use Austria as a “trans-shipping destination” for their capital. Investing through Austria had the strongest effect on Ukraine and Russia where Austrian FDI stock in 2015 dropped by 25% and 15%, respectively. All projects abandoned in 2015 were associated with those two countries, and half of the projects were ultimately linked to companies operating in those two countries. A very good example in that respect is the Austrian company Active Solar (once owned by A. Klyuyev and S. Klyuyev): power stations in the Crimea in which the company had invested more than \$1 billion were attached to repay loans owed to Russian state banks, and a receiver was appointed to manage the affairs of the semiconductor plant in Zaporozhye. Most companies holding Austrian assets for investing in their own or neighboring countries preserved their projects, although without any additional capital infusions in 2015, which in some cases resulted in impairment of the assets due to devaluation of national currencies. For example, Sberbank of Russia did not use its Austrian subsidiary to make an additional contribution to the Ukrainian VS Bank, which led to the latter losing a third of its authorized capital in dollar terms.

It should be noted that problems caused by Austria's "trans-shipping destination" role had little, if any, effect on Belarus which was also affected by negative economic trends. By the end of 2015, Austrian FDI in Belarus went up by 9%, with half of the existing Austrian projects receiving new capital infusions, which became possible because Belarus assets are truly owned by large Austrian companies. Additionally, the Belarus government permits investing in those sectors of the Belarus economy which are most attractive for Austrian companies, such as Wood Processing, Communication and IT, and Construction.

Beside Belarus, Austrian capital infusions were received by a quarter of ongoing projects in Kazakhstan and Russia, and even by two projects in Ukraine. Asset impairment was caused not by capital flight, but rather by devaluation of national currencies: that process affected the banking and insurance sectors in Belarus, Russia, and Ukraine, as most Austrian investors failed to provide significant capital contributions. Very few Austrian companies sold or closed their projects, and even such companies in most cases retained some presence in the relevant countries by keeping other assets. For example, Immofinanz sold its warehouse in Saint Petersburg, focusing instead on the real estate sector in Moscow. All in all, impairment losses account for about 20% of the decrease in the value of Austrian FDI due to the role of Austria as a "trans-shipping destination."

It is, however, unlikely that there will be a throwback to the vast reduction of Austrian FDI stock in EAEU countries, Azerbaijan, Tajikistan, and Ukraine that took place in 2015: most losses attributable to the use of Austrian jurisdiction have already occurred, and large Austrian companies continue to be interested in the markets of those countries despite all political and economic complications. This assumption is supported by the fact that in 2015 and early 2016 Austrian investors tried to launch several new projects in Russia and Belarus worth dozens of millions of dollars.

Conclusion

In 2016, there was a quantum jump in the evolution of the DIM-Eurasia Database. It surpassed the database created within the framework of MIM CIS, the first joint project of the RAS IMEMO and the EDB Centre for Integration Studies, by a number of important parameters. In structural terms, the minimal threshold value triggering inclusion of projects into the two databases is now the same (\$3 million). Additionally, the geographical footprint of the DIM-Eurasia Database continued to grow. Azerbaijan was added to the CIS family, and the UAE and Singapore were included to assess reciprocal investment flows from Eurasian countries outside the post-Soviet area. As a result, we have reviewed in the course of implementation of the MIM CIS and DIM-Eurasia projects on an individual project level not only a significant part of all capital investments defining corporate integration in Eurasia but also about 1% of total global FDI stock.

It is possible, however, to further enhance our analysis of mutual FDI in the Eurasian continent. Even though our Asian subset (currently consisting of nine countries) is quite representative, it is advisable to expand it by adding several other important regional players. We intend to place special emphasis on countries which are particularly relevant in terms of assessing the prospects of building a network of free trade zones within the Eurasian Economic Union.

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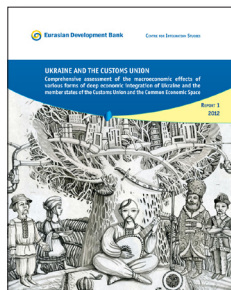
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Report 1

Comprehensive Assessment of the Macroeconomic Effects of Various Forms of Deep Economic Integration of Ukraine and the Member States of the Customs Union and the Common Economic Space

The main goal of the project is to assess a macroeconomic effect of the creation of the Customs Union and Single Economic Space of Russia, Belarus and Kazakhstan, and to determine prospects of the development of integration links between Ukraine and the CU. The project was conducted by the team of five research institutions. The results presented in the report have been widely recognized and become standard.

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/ukraine/>



Report 2

Studies of Regional Integration in the CIS and in Central Asia: A Literature Survey

This report, published under auspices of the EDB Centre for Integration Studies, summarizes both international studies in the area of regional integration within the former Soviet Union and Russian language materials on this issue, reviewing the research papers and publications in the area of economics, political studies, international relations and international political economy, law and area studies.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/CIS_CentralAsia/

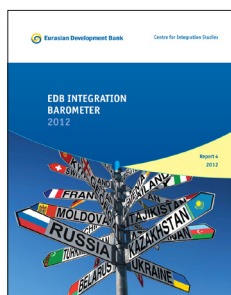


Report 3

Labour Migration in the CES: Economic Effects and Legal-Institutional Consequences of Labour Migration Agreements

The project included analysis of two labour agreements that came into force on January 1, 2012 within the SES of Russia, Belarus and Kazakhstan. It analyzes their economic and social impact on labour migration processes, labour market and productivity, strengthening of the regional economic relations.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/labour_migration/



Report 4

EDB Integration Barometer 2012

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/integration_barometer/

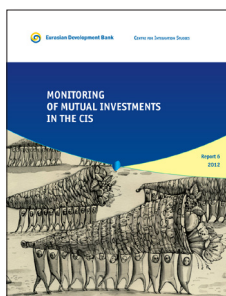


Report 5

Threats to Public Finances of the CIS in the Light of the Current Global Instability

The report deals with the assessment of the risks for the government finances of the CIS countries in the light of current world instability. The report was conducted at the request of the Finance Ministry of the Republic of Kazakhstan, and presented at the permanent council of the CIS Finance Ministers.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/risks/>



Report 6

Monitoring of Mutual Investments in the CIS

The monitoring of mutual CIS investments provides analytical support for work conducted by state and supranational agencies on developing a suitable strategy for deepening integration processes throughout the post-Soviet space. The Centre in partnership with IMEMO (RAS) has created and is regularly updating the most comprehensive database up to date.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/invest_monitoring/



Report 7

Customs Union and Cross-Border Cooperation between Kazakhstan and Russia

Research on the economic effects of the development of industrial relations under the influence of the Customs Union in the border regions of Russia and Kazakhstan.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/kaz_rus_e/

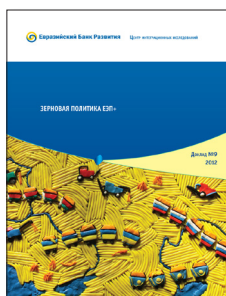


Report 8

Unified Trade Policy and Addressing the Modernization Challenges of the SES

The report presents an analysis of the key economic risks arising under the agreement by SES participants of a foreign trade policy, formulates proposals on the main thrusts of SES Common Trade Policy, and names measures for its reconciled implementation.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/trade_policy/



Report 9

SES+ Grain Policy

Growth in grain production is propelling Kazakhstan, Ukraine and Russia to the leadership ranks of the global grain market. The report systematically analyzes trends in development of the grain sector and actual policies and regulations in SES countries, Ukraine and other participants of the regional grain market.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/grain_policy/

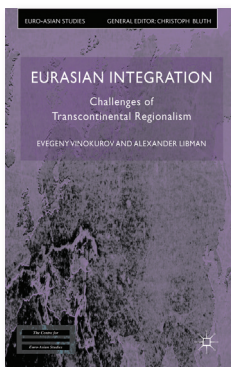


Eurasian Continental Integration

E.Vinokurov, A.Libman

This monograph analyses integration processes on the Eurasian continent. It considers prospects for and pre-requisites of a successful Eurasian integration and offers a coherent concept of Eurasian economic integration. The authors contend that Eurasian continental integration could become a key driving force in the integration of trade, energy resources and other commodities, transportation industry, the flows of capital and labour, and the counteraction to cross-boundary threats.

http://www.eabr.org/general/upload/CII%20-%20Izdania/EKI_preview.pdf



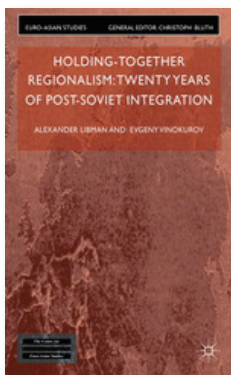
Eurasian Integration: Challenges of Transcontinental Regionalism

Evgeny Vinokurov, Alexander Libman
Basingtoke: Palgrave Macmillan

"Vinokurov and Libman have pulled together a tremendous range of information and insight about Eurasian economic integration. Their eminently readable book tackles an important and timely topic, which lies at the heart of global economic and political transformation in the 21st century."

Johannes Linn, Brookings Institute

<http://eabr.org/e/research/centreCIS/monographsCIS/>



Holding-Together Regionalism: Twenty Years of Post-Soviet Integration

Alexander Libman, Evgeny Vinokurov
Basingtoke: Palgrave Macmillan

An in-depth analysis of one of the most important and complex issues of the post-Soviet era, namely the (re-)integration of this highly interconnected region. The book considers the evolution of "holding-together" groups since the collapse of the Soviet Union in 1991, looking at intergovernmental interaction and informal economic and social ties.

<http://eabr.org/e/research/centreCIS/monographsCIS/>

2013

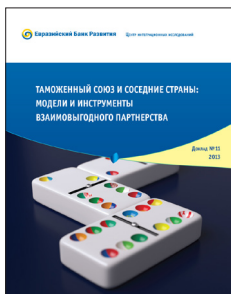


Report 10

Technological Coordination and Improving Competitiveness within the SES

The report presents a number of proposals aimed at improving SES competitiveness within the international division of labour.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/technological_coordination/



Report 11

The Customs Union and Neighbouring Countries: Models and Instruments for Mutually Beneficial Partnership

The report proposes a broad spectrum of approaches to the fostering of deep and pragmatic integrational interaction between the CU/SES and countries throughout the Eurasian continent.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/cu_and_neighbors/

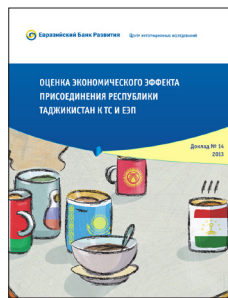


Report 13

Labour Migration and Human Capital of Kyrgyzstan: Impact of the Customs Union

The report focuses on the effects of Kyrgyzstan's possible accession to the Customs Union (CU) and Single Economic Space (SES) on the flows of labour resources, the volume of cash remittances, labour market conditions and professional education and training in this country.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/labor_migration_kyrgyzstan_cu/

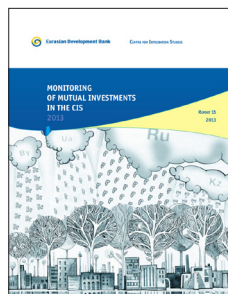


Report 14

Economic Impact of Tajikistan's Accession to the Customs Union and Single Economic Space

Tajikistan's accession to the CU and the SES will have a positive economic impact on the country's economy. The report includes a detailed economic analysis of the issue using various economic models and research methods.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/Tajikistan_CU_SES/



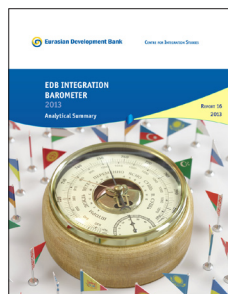
Report 15

Monitoring of Mutual Investments in the CIS 2013

The report contains new results of the joint research project of the EDB Centre for Integration Studies and the Institute of World Economy and International Relations of the Russian Academy of Sciences. It is aimed at the maintenance and development of the monitoring database of mutual direct investment in the CIS countries and Georgia. A general characteristic of mutual investments in the CIS at the end of 2012 is provided.

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/>



Report 16

EDB Integration Barometer — 2013

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/integration_barometer/

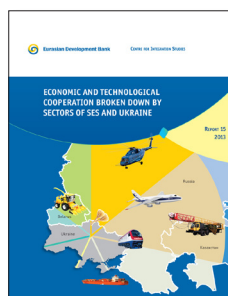


Report 17

Cross-Border Cooperation between Russia, Belarus and Ukraine

Cooperation between 27 cross-border regions of Belarus, Russia and Ukraine has significant potential; however the existing frontiers and barriers are a significant factor that fragments the region's economic space.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project16/>



Report 18

Customs Union and Ukraine: Economic and Technological Cooperation in Sectors and Industries

The authors of the report study the issue of industrial and inter-industry links between the SES economies and Ukraine and come to a conclusion that cooperation between enterprises has been maintained in practically all segments of the processing industries, while in certain sectors of mechanical engineering this cooperation has no alternatives.

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project18/>



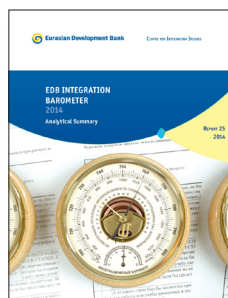
Report 19

Monitoring of Direct Investments of Belarus, Kazakhstan, Russia, and Ukraine in Eurasia

The Eurasia FDI Monitoring project supplements another research by the EDB Centre for Integration Studies — Monitoring of Mutual Foreign Investment in the CIS countries (CIS Mutual Investment Monitoring).

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project19/>



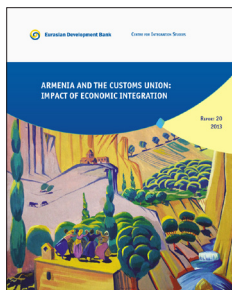
Report 25

EDB Integration Barometer — 2014

The results of the third research into preferences of the CIS region population with respect to various aspects of Eurasian integration suggest that the “integration core” of the Eurasian Economic Union (EEU) continues to form and crystallise.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/integration_barometer/index.php?id_16=42460



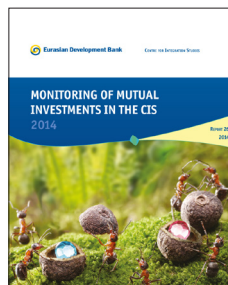
Report 20

Armenia and the Customs Union: Impact of Economic Integration

This report provides the assessment of the macroeconomic impact of Armenia joining the Customs Union.

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project20/>



Report 26

Monitoring of Mutual Investments in the CIS 2014

This is the fifth report on the results of the long-term research project devoted to monitoring of mutual direct investments in the CIS countries and Georgia. The current report provides detailed information on the scope and structure of mutual investments of CIS countries up to the end of 2013. The report provides information on the most important trends in the first half of 2014, including the situation in Ukraine and its impact on the Russian direct investments in the country. It also presents an analysis of the prospects for mutual direct investments of the Eurasian Economic Union countries.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/invest_monitoring/index.php?id_16=42737

2014



System of Indicators of Eurasian Integration

The System of Indicators of Eurasian Integration (SIEI) is designed to become the monitoring and assessment tool for integration processes within the post-Soviet territory.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/siei/index.php?id_16=37610



Report 23

Quantifying Economic Integration of the European Union and the Eurasian Economic Union: Methodological Approaches

The objective of the project is to discuss and analyse economic integration in Eurasia, both on the continental scale “from Lisbon to Shanghai”, and in the EU-EEU dimension “from Lisbon to Vladivostok.”

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project21/>



Report 27

EDB Regional Integration Database

This is an applied research project, which represents the creation of a specialized regularly updated database of the most significant regional integration organisations (RIOs) and economic/trade agreements of the world.

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project26/>

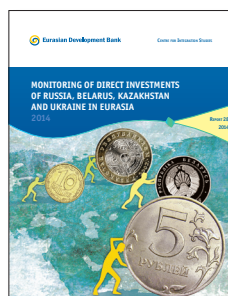


Report 24

Pension Mobility within the Eurasian Economic Union and the CIS

In the report the experts evaluate the prospects of implementing effective mechanisms in the region to tackle pension problems of migrant workers.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project24/>



Report 28

Monitoring of Direct Investments of Russia, Belarus, Kazakhstan, and Ukraine in Eurasia — 2014

The second report presents new results of the permanent annual project dedicated to monitoring of direct investments of Belarus, Kazakhstan, Russia and Ukraine in Eurasia. On the basis of the statistics collected during monitoring, detailed information is provided on the dynamics, actual geographical location and sectoral structure of the investments.

Available in Russian and English.

<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project24/>

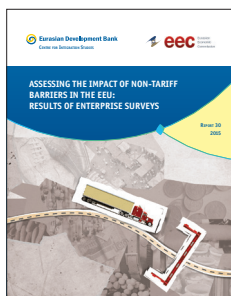
2015

**Report 29****Estimating the Economic Effects of Reducing Non-Tariff Barriers in the EEU**

The EDB Centre for Integration Studies publishes the first comprehensive assessment of the effects of non-tariff barriers on mutual trade in the EEU and provides recommendations as to how to remove them. The report has been prepared by the Centre for Integration Studies based on a poll of 530 Russian, Kazakh and Belarusian exporters.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=47863&linked_block_id=0

**Report 30****Assessing the Impact of Non-Tariff Barriers in the EEU: Results of Enterprise Surveys**

A large-scale poll of 530 enterprises in Belarus, Kazakhstan and Russia suggests that non-tariff barriers account 15% to 30% of the value of exports. Belarusian exporters estimate non-tariff barriers in their trade with Russia and Kazakhstan at 15% of the value of their exports, Kazakh exporters at 16% for exports to Russia and 29% for exports to Belarus, and Russian exporters at about 25% for exports to each of the two other countries.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=47864&linked_block_id=0

**Report 31****Labour Migration and Labour-Intensive Industries in Kyrgyzstan and Tajikistan: Possibilities for Human Development in Central Asia**

Current research deals with the analysis of migration flow, labour potential in Central Asia (the examples of Kyrgyzstan and Tajikistan are taken). The focus is made on the possibilities of both countries to reorient their economies from export of labour to export of labour-intensive goods and services.

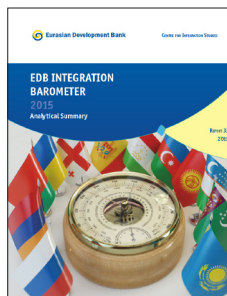
http://www.eabr.org/r/research/centre/projectsCII/projects_cii/index.php?id_4=48785&linked_block_id=0

**Report 32****Monitoring of Mutual Investments in CIS Countries 2015**

According to the sixth report of a years-long research project in 2014 the fall in mutual foreign direct investments (FDI) between the CIS countries was \$6.3 billion, or 12% year-on-year. One of the main causes for this drastic decline in all mutual FDI in the CIS was the destabilised economic and political situation in Ukraine. At the same time, while overall investment activity in the CIS has shrunk, the young integration organization – the Eurasian Economic Union (EAEU) – demonstrates stability. Even despite the devaluation of national currencies, mutual FDI in the EAEU region in 2014 grew from \$24.8 billion to \$25.1 billion. The positive dynamics in investment flows in the EAEU was largely due to the advancement and strengthening of regional economic integration.

Available in Russian and English.

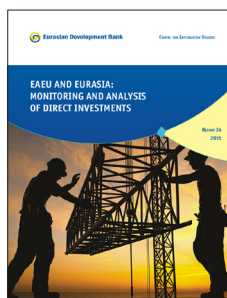
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**Report 33****EDB Integration Barometer – 2015**

The fourth wave of public opinion surveys on integration preferences in the CIS countries suggests that the “integration core” of the Eurasian Economic Union (EAEU) continues to consolidate. In Kazakhstan, Russia and the Kyrgyz Republic 78–86% of the population support the Eurasian integration. At the same time, in Belarus and Armenia the rate of approval of Eurasian integration reduced in the recent year. These are the findings of the EDB Integration Barometer, a yearly research conducted by Eurasian Development Bank's (EDB) Centre for Integration Studies. In 2015, over 11,000 people from nine CIS region countries — Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, and Ukraine— took part in the poll. The research has been conducted by the EDB Centre for Integration Studies since 2012 annually in partnership with “Eurasian Monitor”, an international research agency.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=48997&linked_block_id=0

**Report 34****EAEU and Eurasia: Monitoring and Analysis of Direct Investments**

The report presents new results of the permanent annual project dedicated to monitoring of direct investments in Eurasia. This report focuses on direct investments of Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments of Austria, Netherlands, Turkey, Iran, India, Vietnam, China, the Republic of Korea, and Japan in the seven CIS countries mentioned above.

Available in Russian and English.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49144&linked_block_id=0



Report 35

Forecasting System for the Eurasian Economic Union

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank. This work builds upon the findings of the joint research undertaken by the Eurasian Development Bank (EDB) and the Eurasian Economic Commission (EEC) to create a system capable of generating economic forecasts for EAEU member states, subject to any applicable country-specific social components. The project has yielded an Integrated System of Models covering five countries. It can be used to analyze economic processes, make projections, and develop proposals and guidance on streamlining economic policies within the EAEU.

Available in Russian and English.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49199&linked_block_id=0



Report 36

Liberalization of the Republic of Belarus Financial Market within the EAEU

The development of the EAEU requires a coordinated foreign exchange policy, harmonised regulations governing the financial market, and the establishment of a common financial market to ensure the free movement of capital between the member states. The single financial market will produce significant economic effects such as increased investments in the common market, maximized returns, broader risk distribution, and lower borrowing costs, especially for smaller economies.

Belarus will benefit from its movement towards a single financial market in the EAEU. However, this also creates certain challenges. These findings of Eurasian Development Bank's (EDB) Centre for Integration Studies are presented in the report *Liberalisation of the Republic of Belarus Financial Market within the EAEU*.

Available in Russian and English.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49260&linked_block_id=0php?id_4=49256



Report 37

Regional Organizations: Typology and Development Paths

The report presents the results of the EDB Centre for Integration Studies' ongoing project "Regional Integration in the World." One of the aims of this project is comprehensive analysis of regional integration organizations in the world and later application of the findings in facilitating the processes of Eurasian integration. The report *Regional Organizations: Typology and Development Paths* provides the key conclusions and recommendations which are based on a detailed review of sixty organizations.

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Report 38

European Union and Eurasian Economic Union: Long-Term Dialogue and Perspectives of Agreement

The report presents preliminary results of conceptual analysis of developing EU-EAEU economic relations and search of practical approaches to achieving that goal. This work is processed by the International Institute for Applied Systems Analysis (IIASA, Austria) and the Centre for Integration Studies of Eurasian Development Bank (EDB) within long-term ongoing joint project "Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space."

Available in Russian and English.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49507&linked_block_id=0



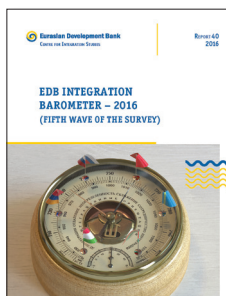
Report 39

Monitoring of Mutual Investments in CIS Countries 2016

The report is the seventh in a series of publications presenting the findings of a permanent research project concerned with the monitoring of mutual investments in CIS countries and Georgia. The analysis is built on a database that has been maintained on the basis of diverse data obtained from publicly available sources.

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/invest_monitoring/



Report 40

EDB Integration Barometer – 2016

The report presents the results of the EDB Centre for Integration Studies' ongoing research project "EDB Integration Barometer". In 2016, 8,500 people from seven CIS countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, and Tajikistan) answered about 20 questions concerning the Eurasian integration and various facets of economic, political, and sociocultural cooperation in the CIS region. The research has been conducted by the EDB Centre for Integration Studies since 2012 annually in partnership with an international research agency "Eurasian Monitor".

Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/integration_barometer/index.php?id_16=49600



Eurasian Development Bank (EDB) is an international financial organization established to promote economic growth in its member states, extend trade and economic ties between them and to support integration in Eurasia by implementing the investment projects. The Bank was conceived by the Presidents of the Russian Federation and the Republic of Kazakhstan and established in 2006. EDB member states include the Kyrgyz Republic, the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Republic of Tajikistan, and the Russian Federation.

Facilitation of integration in Eurasia as well as information and analytical support thereof are among the most important goals of the Bank. In 2011 EDB Centre for Integration Studies was established. The key objectives of the Centre are as follows: organization of research, preparation of reports and recommendations to the governments of EDB member states on the matters of regional economic integration.

Over the last five years, EDB Centre for Integration Studies has proved itself as a leading analytical think-tank dealing with the issues of Eurasian integration. In partnership with the experts, research centers and institutions, the Centre has published 41 report and prepared more than 50 insights and briefs for Presidential Executive Offices, Ministries of EDB member states, and the Eurasian Economic Commission.

More detailed information about EDB Centre for Integration Studies, its projects, publications, research fields, as well as electronic versions of its reports is available on the website of the Eurasian Development Bank at:

<http://www.eabr.org/e/research/centreCIS/aboutCIS/index.php>

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EAEU AND EURASIA: MONITORING AND ANALYSIS OF DIRECT INVESTMENTS 2016

This report presents the new findings of a research project concerned with the monitoring of direct investments in Eurasia which complements the monitoring of mutual investments in the CIS, another project underway since 2011. The research presents the analysis of direct investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia. The authors also review reciprocal direct investments made by Austria, the Netherlands, Turkey, the United Arab Emirates, Iran, India, Singapore, Vietnam, China, South Korea, and Japan in the eight CIS countries listed above. Based on statistical data collected in the course of monitoring, the authors provide detailed information on the evolution, actual geographic localization, and sectoral structure of the capital investments under review.

Electronic version of the report is available on the Eurasian Development Bank's website at:
<http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/>

**Saint Petersburg
2016**