

MONITORING OF MUTUAL INVESTMENTS IN CIS COUNTRIES 2017



RU 1 \$ 34.8 billion (ex) \$ 6.1 billion (im)	KZ 2 \$ 4.3 billion (ex) \$ 8.3 billion (im)	BY 3 \$ 2.1 billion (ex) \$ 8.6 billion (im)
	UA 4 \$ 1.1 billion (ex) \$ 5.6 billion (im)	UZ 5 \$ 50 million (ex) \$ 5.3 billion (im)
	AM 6 \$ 51 million (ex) \$ 3.6 billion (im)	AZ 7 \$ 2.4 billion (ex) \$ 0.9 billion (im)
		KG 8 \$ 35 million (ex) \$ 1.5 billion (im)

MONITORING OF MUTUAL INVESTMENTS IN CIS COUNTRIES 2017

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This report is the eighth in a series of reports detailing the findings of a long-standing research project dedicated to the monitoring of mutual investments in CIS countries and Georgia. The analysis relies on a database maintained on the basis of diverse data obtained from publicly available sources. The database is generated “from the bottom up”, i.e., its creators rely on corporate statements and other primary information. As a result, the project makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations”, and reinvested foreign profits.

The report contains detailed information on the scope, dynamics, geographical structure, and sectoral structure of mutual investments in CIS countries and Georgia as of the end of 2016. Special attention is paid to mutual direct investments by companies from Eurasian Economic Union member states, with special emphasis on their dual role as exporters of capital and as recipients of direct investments made by companies from other post-Soviet states.

An electronic version of the report is available on the Eurasian Development Bank’s website at:
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ACRONYMS AND ABBREVIATIONS

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

CDN – Commodity Distribution Network

CIS – Commonwealth of Independent States

DIM-Eurasia – Monitoring of Direct Investments by Russia and Certain Other Post-Soviet States in Europe and Asia outside the CIS and Georgia

EAEU – Eurasian Economic Union

EDB – Eurasian Development Bank

EU – European Union

FDI – Foreign Direct Investment

IMEMO – Primakov National Research Institute of World Economy and International Relations (Russian Academy of Sciences)

IT – Information Technologies

JV – Joint Venture

MIM CIS – Monitoring of Mutual Investments by CIS Countries and Georgia

OECD – Organization for Economic Cooperation and Development

PFS – Petrol Filling Station

RSCI – Russian Science Citation Index

SOCAR – State Oil Company of the Azerbaijan Republic

TNC – Transnational Corporation

UNCTAD – United Nations Conference on Trade and Development

Summary

The CIS Countries and Georgia Mutual Direct Investments Monitoring Database (MIM CIS) is an ongoing project of the EDB Centre for Integration Studies. The database contains detailed information on mutual FDI stock related to projects implemented by investors from post-Soviet states.

The MIM CIS has been maintained since 2011 on the basis of diverse data obtained from publicly available sources. Therefore, the database is generated “from the bottom up”, with its creators relying on corporate statements and other primary information. As a result, the MIM CIS makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations”. In this respect, it is different from official statistics.

The MIM CIS Database features data that are critical for successful comprehensive analyses of investment projects: investor country, recipient sector and branch (according to the two-level classification 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 (for completed investments, project implementation period), FDI year-end value in 2008–2016, additional comments, and sources of information.

The applied nature of the database makes it relevant both for researchers and for government bodies of EDB member states, which seek, more and more frequently, to obtain useful supplementary MIM CIS-based information and analyses.

- **Mutual FDI in the EAEU: up by 15.9% after a three-year decline.** In 2016, mutual FDI by EAEU member states grew twice as fast as CIS countries’ total mutual FDI stock, increasing by 15.9% to \$26.8 billion (excluding projects valued at less than \$1 million) (Figure A).
- **By the end of 2016, mutual FDI in the CIS had posted considerable growth at 7.9%.** According to monitoring results, at the end of 2016, mutual CIS and Georgia FDI stock amounted to \$45.1 billion (excluding projects valued at less than \$1 million). The indicator (which in 2009–2012 had grown from \$36.7 billion to \$57.1 billion) changed its direction, having succumbed to a downward trend that emerged in 2013. Thus, by the end of 2014, FDI stock had dropped to \$45.1 billion and decreased even further to \$41.8 billion by the end of 2015. However, during 2016, mutual CIS FDI stock rebounded by 7.9% to \$45.1 billion (Figure B).
- **Key mutual FDI growth factors in 2016: strengthening of the Russian ruble and recovery of economic activity in Russia.** As a recipient of EAEU FDI, in 2016,

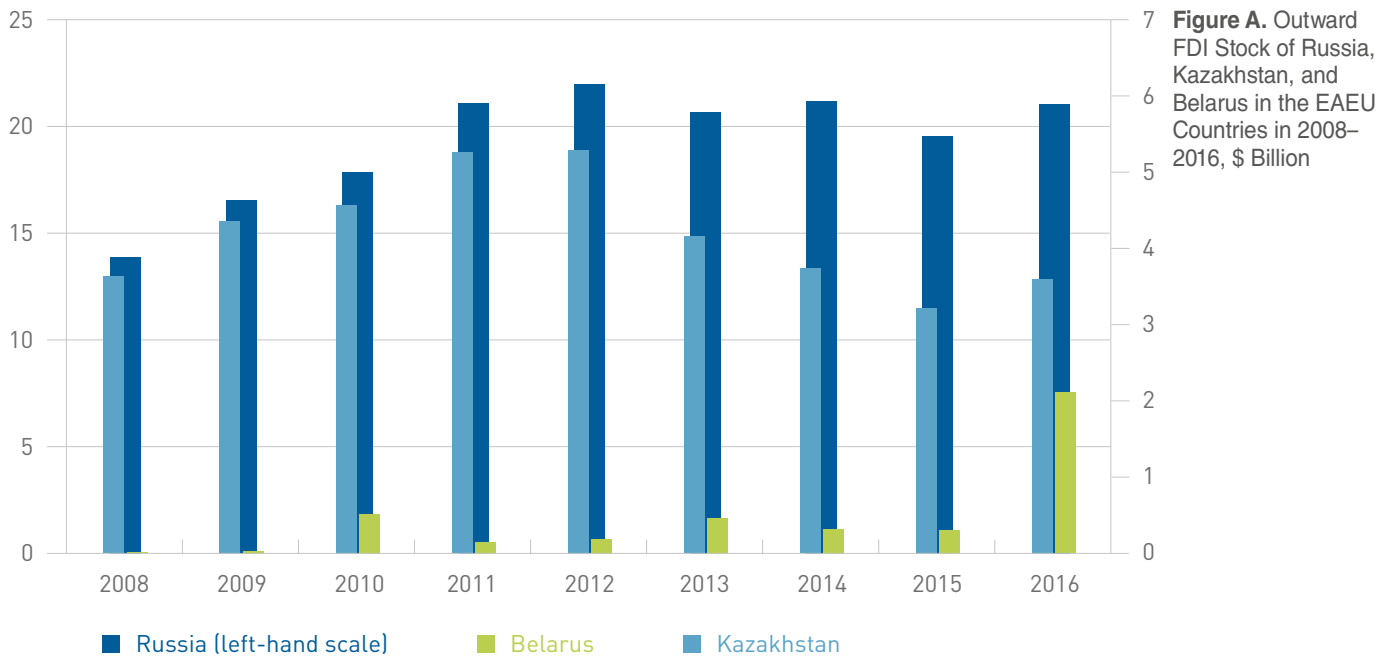


Figure A. Outward FDI Stock of Russia, Kazakhstan, and Belarus in the EAEU Countries in 2008–2016, \$ Billion

Russia posted record-breaking growth rates, with direct investment stock skyrocketing by 77% to \$5 billion. Still, Russia came only third after Belarus (\$8.6 billion) and Kazakhstan (\$8.2 billion).

- **Russia is the only net exporter of mutual FDI originating from EAEU member states (Table A).** By the end of 2016, 60.5% of a total of \$34.8 billion of capital invested by Russian companies in post-Soviet states wound up in EAEU member states, while FDI outflows by Kazakhstan and Belarus to other EAEU states accounted for 83.6% of \$4.3 billion and 97.7% of \$2.1 billion, respectively. The trio of EAEU founders was responsible for 91.5% of total mutual FDI exported to the CIS and 51.1% of total mutual FDI inflows.
- **Out of the existing CIS investment pairs, the top five is made up of pairs with the participation of Russia:** Russia – Kazakhstan (\$11.16 billion, with 74% represented by Russian outward FDI), Russia – Belarus (\$10.58 billion, with 81% represented by Russian outward FDI), Russia – Ukraine (\$5.96 billion, with 87% represented by Russian outward FDI), Russia – Uzbekistan (\$5.35 billion, with 99% represented by Russian outward FDI), and Russia – Armenia (\$3.45 billion, with almost 100% represented by Russian outward FDI).
- **In 2016, the share of non-Russian FDI in mutual capital investments by CIS countries and Georgia for the first time exceeded one-fifth, reaching 22.8%, notably because of a rapid increase of Belarusian capital investments.** Meanwhile, business in CIS countries—which previously lagged behind Russia—is being gradually internationalized. While at the end of 2013 that indicator stood at 16.3%, a year later it grew to 18.2% (more or less returning to the level registered in 2008–2010),

Figure B. Outward FDI Stock of Key Investor Countries in the CIS in 2008–2016, \$ Billion

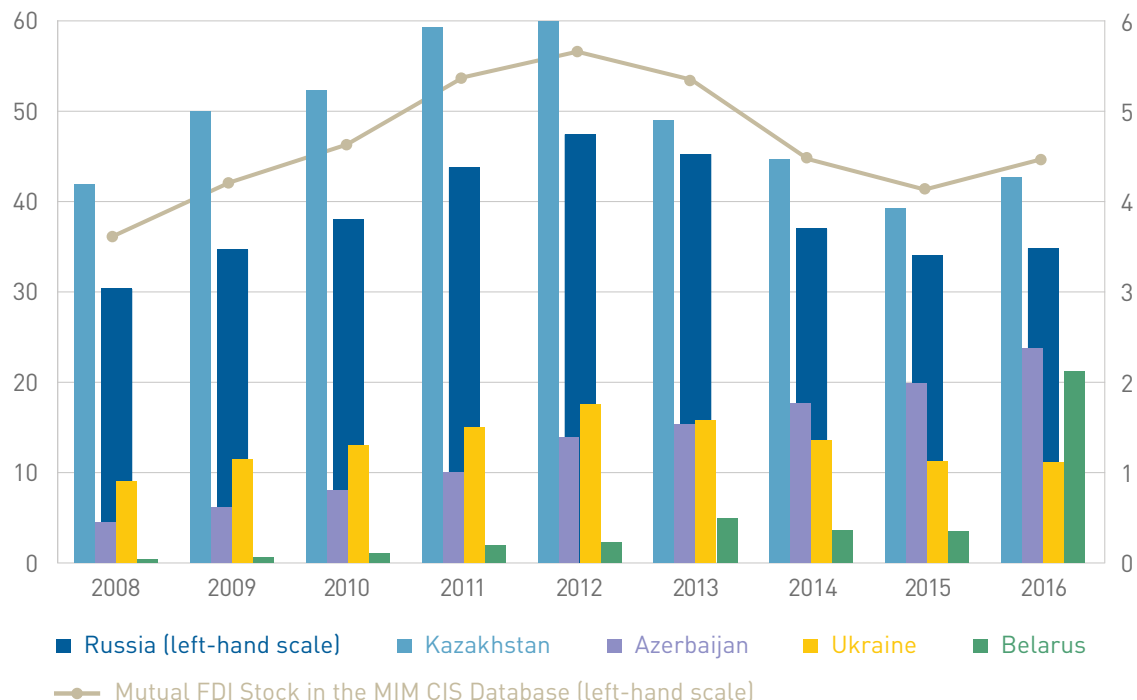


Table A. Mutual Direct Investments by EAEU Member States at the End of 2016

Recipient Country	Investor Countries' FDI Stock, \$ Million					
	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan	All 5 Countries
Russia	X	2,948	2,054	8	0	5,010
Kazakhstan	8,212	X	34	0	0	8,246
Belarus	8,522	57	X	16	2	8,597
Armenia	3,441	0	0	X	0	3,441
Kyrgyzstan	858	605	3	0	X	1,466
All 5 Countries	21,033	3,610	2,091	24	2	26,760

reaching 18.5% by the end 2015. Having established a solid presence in the post-Soviet area, Russian TNCs often prefer to invest in third countries.

- **Despite a large number of projects in the MIM CIS database, Russia's high-performance indicators are attributable to just a few companies.** It is Russian TNCs that outrank the leading investors from other CIS countries in terms of capital export and investment geography. FDI by the 25 largest Russian companies investing in EAEU member states accounts for 71% of total EAEU mutual FDI stock. The 25 largest projects implemented by Russian companies account for about 61% of total EAEU mutual FDI stock.

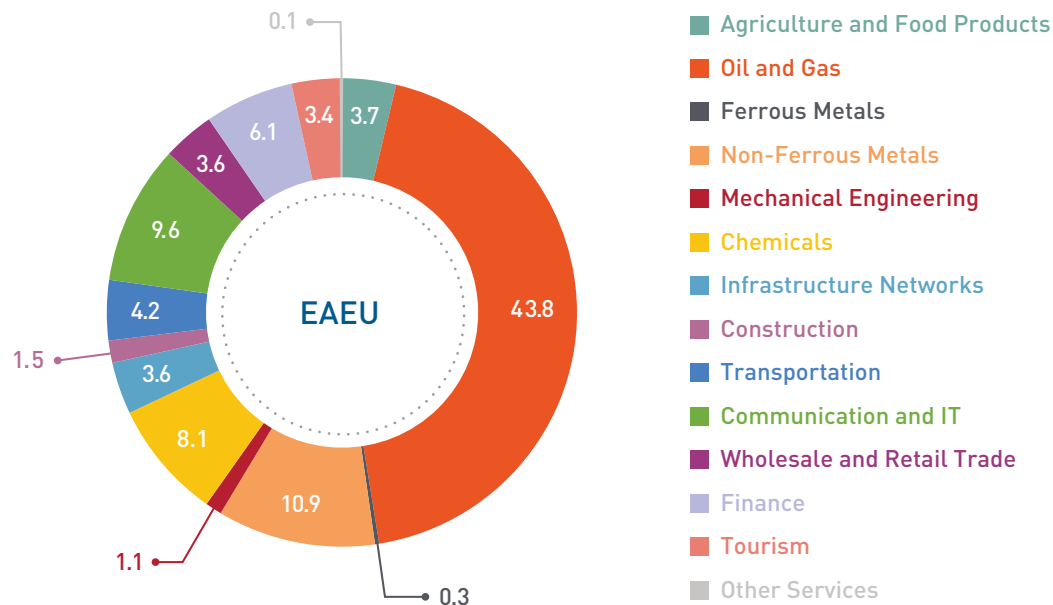


Figure C. Sectoral Structure of EAEU Mutual FDI Stock at the End of 2016, %

- **The leading mutual FDI sector in the EAEU is Oil and Gas (43.3%), followed by Non-Ferrous Metals, Communication and IT (Figure C).** The leading position of Oil and Gas is secured by the two largest projects in EAEU member states PJSC Gazprom's gas transportation subsidiary in Belarus and PJSC LUKOIL's hydrocarbons-production projects in Kazakhstan. The Chemical sector, with 8.1%, ascended to the fourth position only in 2016, following the acquisition by a Belarusian investor of a 20% stake in PJSC Uralkali (the year before, the share of the Chemical sector in total EAEU mutual FDI amounted to only 1.1%, while the peak value registered in 2013 was 2.1%).
- **The sectoral structure of Russian FDI stock originating from EAEU member states is radically different from the general structure of the union's mutual FDI: the list of leaders includes Chemicals, Agriculture and Food Products, and Tourism.** At the end of 2016, Russia's Chemical sector came out on top with 35.1%. The second place went to Agriculture and Food Products (15.8%). The third-largest FDI stock was recorded for Transportation (14.2%). The fourth position was occupied by Tourism (14.0%). Interestingly, Oil and Gas was only in the fifth position, with 12.5%.
- **The relatively insignificant investments by Armenia and Kyrgyzstan were mostly associated with their non-EAEU neighbors — Georgia and Uzbekistan, respectively.** The "neighborhood effect" continues to play the key role for those two republics. The value of Armenian direct investments in Georgia is equal to the aggregate value of its direct investments in the entire EAEU.

- **The top four Russian investors are Gazprom, LUKOIL, VimpelCom, and MTS.** At the end of 2016, they accounted for \$19.5 billion of total FDI stock. This represents more than 43% of total mutual direct capital investments in the CIS and Georgia (or almost 56% of total Russian FDI in the post-Soviet area). The ten largest investors in the CIS (now represented not only by Russian companies but also by Belarusian, Azerbaijani, and Kazakh companies) account for 59% of total mutual FDI stock in the CIS countries and Georgia (Table B). The most notable changes in the top ten vis-a-vis 2016 include Yuras Oil, while VTB Group left the list due to impairment of its Ukrainian assets.
- **Azerbaijan is one of the two countries (Russia being the other) that are net exporters of direct capital investments into the CIS countries and Georgia.** Despite the adverse economic climate, Azerbaijan is still prepared to invest its capital in the region, primarily in transportation projects. Azerbaijani FDI in the post-Soviet area is characterized by nonstop growth—in 2016, it went above the \$2.4 billion mark (a 19.4% increase relative to 2015) (see Figure B). Azerbaijani FDI in the post-Soviet area is also becoming more diversified geographically, with investment projects now registered in five states (Georgia, Russia, Ukraine, Kazakhstan, and Belarus).

Table B. Top Investor Companies in the MIM CIS Database at the End of 2016

Investor Company	Country	Main Recipient Sector of the Company's FDI	FDI Stock, \$ Billion	Countries in the Region with Active Subsidiaries (with FDI in Excess of \$1 Million)	Main Recipient Country in the Region	Share of That Country, %
Gazprom (including Gazprom Neft)	Russia	Oil and Gas	8.34	9	Belarus	62
LUKOIL	Russia	Oil and Gas	7.59	6	Uzbekistan	50
VimpelCom (since 2017: VEON)	Russia	Communication and IT	1.82	8	Kazakhstan	43
MTS	Russia	Communication and IT	1.79	5	Belarus	46
Yuras Oil	Belarus	Chemicals	1.75	1	Russia	100
SOCAR	Azerbaijan	Oil and Gas	1.29	2	Georgia	87
Meridian Capital	Kazakhstan	Transportation	1.19	3	Russia	92
VS Energy	Russia	Infrastructure Networks	1.08	1	Ukraine	100
Polymetal	Russia	Non-Ferrous Metals	0.87	2	Kazakhstan	92
Verny Capital	Kazakhstan	Tourism	0.87	2	Russia	81

- **Ukraine has lost its status as the leading CIS FDI recipient.** While in 2013 Ukraine accounted for \$17.0 billion (or 31.2%), by the end of 2016 that indicator, following a period of unrelenting decline, plummeted to \$5.6 billion (or 12.4%). **It is quite possible that in 2017 Ukraine will be overtaken not only by the trio of EAEU founders but also by Uzbekistan, where the 2016 year-end figure was \$5.4 billion.** Compared to 2013, Ukrainian FDI exports to CIS countries and Georgia slid down from the third to the fifth position.

Introduction

In late 2011, the EDB Centre for Integration Studies, in partnership with a research team of the Primakov National Research Institute of World Economy and International Relations (IMEMO) of the Russian Academy of Sciences, commenced monitoring of mutual direct investments by CIS countries and Georgia (EDB Centre for Integration Studies, 2012, and subsequent reports). Over the last six years, there has emerged a detailed database featuring direct investment projects in the post-Soviet area. Continued improvement of research methods ensures the superior quality of the FDI information contained in the database. Despite the emergence of new sources of information, and the fact that certain capital investment data obtained in the past had to be reviewed (based on asset value updates published by relevant companies), our current figures describing mutual FDI stock in CIS countries and Georgia for any year from 2008 to 2015 differ from those presented in the 2016 report (EDB Centre for Integration Studies, 2016b) by no more than 1.6%.

Another important competitive advantage that makes the MIM CIS a valuable complement to official direct capital investment statistics is the fact that FDI data are collected using a unique proprietary methodology. It is generally consistent with OECD guidelines (OECD, 2008) but has a number of distinctive features stemming from the lack of OECD-recommended value data for numerous production assets in the post-Soviet area (e.g., we make ample use of data on long-term/noncurrent corporate assets). In addition, MIM CIS is unique in that it identifies the actual locations of the assets it covers. Unfortunately, neither the CBR nor the central banks of the other CIS countries are currently making any attempt to maintain parallel FDI records structured both by the country of the first destination and by the country of final destination. As a result, MIM CIS (which additionally covers FDI made through offshore structures and other “trans-shipping destinations”) provides a more adequate picture of the overall scope of mutual investments in the CIS (which is much larger than officially registered). Painstakingly detailed processing of financial statements and other corporate reports, mass media publications, and data from other sources has made it possible to generate, within the framework of the ongoing monitoring of mutual investments, a more comprehensive list of direct investors included in the database than that prepared, for example, by the CBR. This eliminates certain investment project accounting deficiencies that inhibit central banks and government statistical agencies operating in the post-Soviet area.

In this report, like last year, the FDI stock threshold value triggering inclusion into the MIM CIS database is set at \$3 million during any year under review (2008–2016). At the beginning of 2017, there were 489 such projects (compared to 464 projects in the MIM CIS database the year before). However, as in past reports, the database also covers certain projects with FDI stock within the range from \$1 million to \$3 million (examples may include investments in agricultural enterprises or IT companies).

This has made it possible to use the MIM CIS database to perform more rigorous quantitative analyses of the structure of mutual investments in the CIS, particularly where such investments originate from the so-called small economies (such as Azerbaijan, Belarus, Georgia, and Moldova). As a result, a total of 724 projects (including completed projects) have been selected to measure the scale, structure, and other qualitative parameters of mutual FDI in CIS countries and Georgia.

As in the past year's report, quantitative parameter computations were not performed for projects featuring capital investment stock of less than \$1 million. Such small investment projects (a total of 388 projects with nonzero investments) are maintained in the database only for qualitative analysis purposes (e.g., to confirm the presence of Belarusian FDI in Armenia or the presence of Armenian FDI in Kazakhstan). Overall, the MIM CIS database contains data on almost 1,300 projects initiated by investors from the post-Soviet area.

It should be recognized that the MIM CIS database has proven to be relevant both for researchers and for the business community whose representatives are more and more frequently seeking supplementary MIM CIS-based information and analyses. According to the RSCI system, scholarly journals alone already contain several hundred references to publications featuring MIM CIS and its sister project, DIM-Eurasia (including, in addition to regular reports, several articles: Kuznetsov, 2012; Kvashnin and Kuznetsov, 2014; Kuznetsov, 2014). The MIM CIS project has received international recognition—the English-language version of the report has been included twice in the Top 50 of analytical publications developed by more than 6,500 think tanks throughout the world (McGann, 2015, p. 123; McGann, 2017, p. 116). Our figures are quoted by top Russian officials. For example, at a meeting with Kazakh President N. Nazarbayev, Russian President V. Putin said, “We have made massive investments in the Kazakh economy, with total investment stock at \$9 billion. It should be said that Kazakh investors have also invested a hefty amount—almost \$3 billion—in the Russian economy” (Kremlin.ru, 2016). These figures were originally published in an MIM CIS report (EDB Centre for Integration Studies, 2015b, p. 11), and they differ from those of both the CBR and the National Bank of Kazakhstan.

This report builds on previous joint research conducted by the EDB Centre for Integration Studies and IMEMO. The document is divided into two parts. The first provides a general description—a traditional feature of all our reports—of mutual direct investments by CIS countries and Georgia. The second part of the report deals with the findings of in-depth EAEU mutual investment research; compared to the previous reports, more emphasis has been placed on the structural characteristics of direct investments imported by EAEU member states, eliminating an earlier bias in favor of FDI exports.

1. Mutual Direct Investments in the CIS at the End of 2016

Monitoring of Mutual Direct Investments by CIS countries and Georgia (MIM CIS) has been an ongoing project of the EDB Centre for Integration Studies since the end of 2011. As in previous years, the MIM CIS database includes all investment projects that involve post-Soviet area FDI originating from CIS countries and Georgia valued at more than \$3 million (this threshold corresponds to the existing business transparency level and is consistent with methodologies used in most OECD countries). It also covers a number of less significant projects, which ensures a better understanding of the mutual capital investment universe. Quantitative parameters describing mutual investments originating from CIS countries and Georgia are computed for all projects where FDI stock exceeded \$1 million during any observation year. Projects valued at tens or hundreds of thousands of dollars (the database has slightly more than 550 such projects) are recorded only for the purpose of qualitative trend analysis; for example, to illustrate bilateral investment ties between CIS countries. If such smaller projects were to be excluded, the effect on the aggregate indicators for CIS countries and Georgia would not exceed \$0.2 billion.

One of the considerable advantages of this monitoring of direct investments is the use of a proprietary methodology to generate FDI data that is fuller and more detailed than those produced by central banks, and complete with up-to-date geographic information (EDB Centre for Integration Studies, 2016b, p. 14–15). It should be specially noted that, for example, CBR leaves out a number of significant foreign investors in Russia, relying on a limited list of fewer than 10,000 FDI-related entities (CBR, 2017a).

A two-level sectoral classification comprising 15 sectors and more than 90 branches has been developed to record the sectoral FDI structure within the framework of the two EDB projects—MIM CIS and the related DIM-Eurasia. The classification is regularly updated as new investment projects are entered into the database, and from time to time we make certain adjustments. Notably, in 2016, the trunk pipelines branch was moved from Transportation to Oil and Gas, resulting in the need to modify 2016 year-end FDI stock data by transferring \$1.15 billion, or 2.6% of total capital investments recorded in the MIM CIS database, to a different sector, with the largest change (reclassification of \$1.75 billion) affecting the period from 2008 to 2012.

To ascertain compliance with regional FDI structures in CIS countries, homogeneous capital investments made by a company in different regions (or other administrative or territorial units) are viewed as independent projects. For example, all petrol filling stations or retail outlets of the same investor located in the territory of the same region of Belarus or Kazakhstan are classified as one project. As a result, the MIM CIS database contains records of almost 1,300 projects, producing a detailed picture of the scope, dynamics, and various structural parameters of mutual direct

investments by CIS countries and Georgia in 2008–2016. At the same time, in this report our computations include only those projects where FDI stock exceeded \$1 million during at least one year.

1.1. General Description of the MIM CIS Database

Out of almost 1,300 projects featured in the MIM CIS database, only 4 projects featured an FDI stock of more than \$1 billion, with the number of projects within the \$500–999 million and \$100–499 million ranges standing at 9 and 77, respectively. If we look at the distribution of projects in the MIM CIS database by the amount of investment stock in 2008–2016, we will see that a notable reduction in the number of projects with non-zero FDI (following its increase since 2008) started in 2013 (see Figure 1). Nevertheless, the 2016 figures were still higher than those posted in 2008. It should be noted, however, that the number of extra-large projects has decreased. There were several reasons for the reduction of the number of projects with nonzero capital investments, including termination of projects (prompted, among other things, by adverse economic conditions) or, less frequently, their resale to national investors or third-country TNCs.

In numerical terms, the MIM CIS database is dominated by projects with FDI valued at \$10–49 million or even less, but general parameters of mutual FDI in the post-Soviet area are primarily shaped by a few large deals. As in previous years, PJSC Gazprom's gas-transportation subsidiary in Belarus remains the largest project in the MIM CIS database. It is followed by two hydrocarbon-production projects of PJSC LUKOIL in Uzbekistan and Kazakhstan.

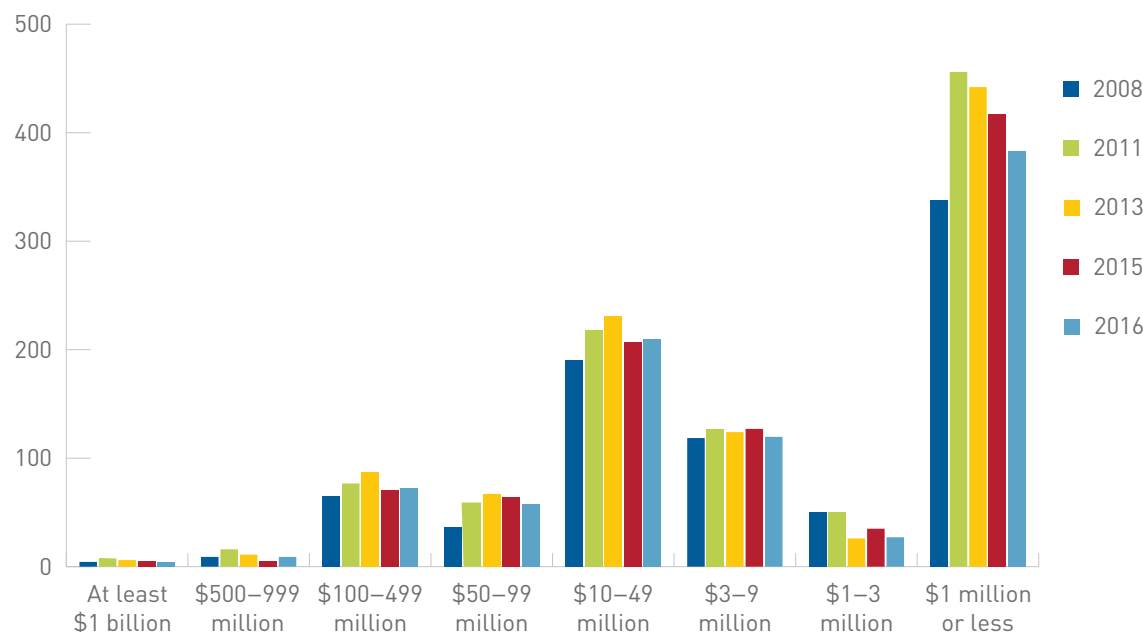


Figure 1. Distribution of MIM CIS Database Projects by FDI Stock Value

How Extra-Large Deals Affect the Characteristics of the MIM CIS Database

When looking at FDI statistics, one must understand the conditional nature of any conclusions drawn with respect to the whole body of capital investment projects in the presence of extra-large deals. A good example is the total net inflow of FDI into Russia in 2016—it amounted to almost \$33 billion, a huge increase compared to \$6.9 billion in 2015, which prompted certain optimistically minded economists to proclaim that the country had regained its investment appeal against the backdrop of a burgeoning economic recovery. However, the 2016 figure was determined by a one-off Q4 deal, when the sale of a 19.5% stake in Rosneft within the context of its partial privatization generated a \$21.2 billion net inflow of FDI into Russia (more than for all of 2014). Accordingly, skeptics maintained that the December 2016 Rosneft stock deal had failed to thaw the country's investment climate (see, for example, a *Financial Times* article republished in *Vedomosti*—Dettoni, 2017). Incidentally, the deal allegedly demonstrated, among other things, an upsurge of interest in Russia on the part of Singaporean investors, which had previously given Russia a wide berth (EDB Centre for Integration Studies, 2016a). In reality, Singapore was used by Qatari investors as a “trans-shipping destination”.

As for the MIM CIS database, the largest difficulty is presented by Gazprom transgaz Belarus. First, as in certain other cases, there is the dilemma as to whether FDI in that company should be measured at fair market value (which at the end of 2011 amounted to \$5 billion, having increased, during that same year, by \$1.25 billion following the purchase of the last 25% stake in the firm) or at book value (2015 year-end equity stood at \$1.1 billion, dropping a year later to \$0.7 billion; the value of noncurrent assets shown on the company's financial statements is not much larger). If the first approach is selected (and the absence of recent market quotations forces the use of “historical prices” reflecting the market value of the company at the time of its acquisition several years ago), we see a sustainably operating company, absolutely dominating all other foreign investors in Belarus. It is not by chance that, at the end of 2015, Russian FDI in Belarus was posted at \$10.3 billion vs. \$5.9 billion in the beginning of 2011 and \$8.4 billion at the end of 2011 (NBRB, 2016). If the second approach (book valuation) is used, we have to conclude that investment ties between Russia and Belarus collapsed after the creation of the Customs Union and, later, the EAEU, which hardly reflects reality. The CBR data on Belarus are closer to the second approach: at the end of 2015, Russian FDI stock was estimated at \$3.6 billion vs. \$5.7 billion at the beginning of 2011 and \$4.7 billion at the end of 2011 (CBR, 2017b).

The sectoral affiliation of FDI in Gazprom transgaz Belarus presents a separate challenge. In the MIM CIS database, we elected to dispense with the OKVED (All-Russian Classification of Types of Economic Activity) and offered a proprietary two-level classification where “transportation and sale of gas” is assigned to Oil and Gas. At the same time, PFS networks, for example, are assigned to Wholesale and Retail Trade, based on the similarity of the scale and geography of this type of FDI to other retail business establishments. Like many other companies, Gazprom transgaz Belarus cannot be unambiguously assigned to any one sector.

Thus, almost 89% of the company's 2016 revenue was generated by the sale of natural gas, and only 11% came from transportation of gas to third countries. On the other hand, more than one-third of the total fixed asset value is represented by pipelines; besides, a sizeable 13% chunk is invested into construction as the company is building an integrated business compound in Minsk. Taking into consideration the fact that this one project accounts for 11.1% of all mutual FDI stock originating from CIS countries and Georgia, 14.4% of Russian FDI stock in the region, 18.7% of mutual FDI by EAEU member states, and 57.9% of Belarusian inward FDI stock originating from CIS countries and Georgia, any decision on Gazprom transgaz Belarus will have a critical effect on the FDI structure. Thus, we have resolved to adhere to the principles of stability (once chosen, a sectoral affiliation of the project in the database does not change) and avoidance of unsubstantiated generalizations (where the relevant FDI structural component contains data on only one extra-large project).

The fourth position is occupied by a non-Russian project: in 2016, a little-known Belarusian company called Yuras Oil paid more than \$1.7 billion for a 20% stake in PJSC Uralkali previously owned by Russian billionaire M. Prokhorov. At the end of 2016, it turned out that the Yuras Oil project in Russia was larger than the MTS investment in Belarusian telecommunications or the VimpelCom (known as VEON since 2017) investment in Kazakhstan. It is hard to say to what extent this investment project is “truly” Belarusian. On the one hand, according to media reports, D. Lobyak, the owner of Yuras Oil, studied at Minsk Suvorov Military School along with D. Mazepin, the current majority holder of Uralkali, and financing was provided to the small Belarusian company by a major Russian bank (Terent'eva, Petlevoy, Peschinskiy, 2016). On the other hand, the use of Russian credit resources by a Belarusian investor (i.e., the inflow of foreign investment in Belarus) is no reason to classify the relevant FDI project as a “loopback” arrangement. Besides, Yuras Oil is the official PJSC Uralkali dealer in Belarus, a country internationally known to specialize in the production of potassium fertilizers. Nevertheless, it is necessary to continue to monitor the progress of this investment project, which in 2016 accounted for 46.5% of the total increase of mutual FDI stock within the EAEU (thereby essentially doubling the rate of growth of those investments vis-a-vis total mutual FDI in CIS countries and Georgia). Furthermore, the Yuras Oil project accounted for three-quarters of the total increase of 2016 Russian inward FDI originating from CIS countries and Georgia, moving Russia from the fifth to the third position on the list of top recipients of such capital investments.

In total, at the end of 2016, CIS and Georgia mutual FDI amounted to \$45.1 billion (excluding projects valued at less than \$1 million). The indicator (which in 2009–2012 had grown steadily from \$36.7 billion to \$57.1 billion) has reversed its direction, having succumbed to a downward trend that emerged in 2013. Thus, by the end of 2014, FDI stock had dropped to \$45.1 billion, to decrease even further to \$41.8 billion by the end of 2015. However, during 2016, mutual CIS FDI stock rebounded by 7.9%.

The main reasons underlying the growth of FDI in 2016 include the strengthening of the Russian ruble and recovery of economic activity in Russia. In particular, in 2016, the exchange rate of the Russian ruble vs. the US dollar strengthened by a factor of 1.2, and many investors operating in the post-Soviet area use the ruble as their currency of preference in mutual FDI projects, with Russia accounting for 77.2% of mutual FDI exports and 13.6% of mutual FDI imports. As a recipient of CIS FDI, in 2016 Russia posted record-breaking growth rates with direct investment stock skyrocketing by 61.1% to \$6.1 billion—the achievement second only to that recorded in 2010–2012. Still, Russia lags behind Belarus and Kazakhstan. All in all, the trio of EAEU founders was responsible for 51.1% of total mutual FDI inflows from CIS countries and Georgia and for 91.5% of total mutual FDI exports (see Table 1).

In 2016, the share of non-Russian FDI in mutual capital investments by CIS countries and Georgia for the first time exceeded one-fifth, reaching an impressive 22.8%. By comparison, at the end of 2013, that indicator stood at 16.3%; a year later, it had grown to 18.2% (more or less returning to the level registered in 2008–2010), reaching 18.5% by the end of 2015. Therefore, after a moderate rollback in 2012–2013, we are witnessing a gradual internationalization of business in CIS countries that previously lagged behind Russia. At the same time, having established a solid presence in the post-Soviet area, Russian TNCs more often than not prefer to invest in third countries.

Over the last several years, Kazakhstan has always been the second-largest participant (after Russia) in mutual investment flows, with 9.6% of total exported mutual investments and 18.3% of total imported mutual investments as of the end of 2016. However, both indicators were below their peak values recorded in 2012. Besides the impairment of assets acquired and booked in rubles or tenge, this can be attributed, first and foremost, to the sale by Mechel, a Russian metallurgical TNC finding itself in troubled financial waters, of Kazakhstan-based LLP Voskhod-chrome for about \$1.7 billion (2013) and the sale by Capital Partners, a Kazakh developer, to a number of western investment funds of a considerable part of the Metropolis Compound (built by the company in Moscow) for more than \$1.5 billion (2013–2015).

Azerbaijan has been demonstrating the most stable investment growth, with FDI stock exports steadily increasing ever since the creation of the MIM CIS database to reach \$2.4 billion by the end of 2016 (+19.4% vs. 2015, and an increase by a factor of five compared to the end of 2008). However, Azerbaijan's achievements as a capital importer are much more modest, with the latest annual indicators being unstable and in any case lower than those posted at the end of the previous decade. As a result, of all CIS countries and Georgia, only Russia and Azerbaijan wound up as net capital exporters.

A sharp increase (more than six-fold) of FDI stock exports to CIS countries and Georgia was reported by Belarus (based on a single deal: the acquisition of a stake in PJSC Uralkali by Yuras Oil); the spike came after a decline from \$0.5 billion in 2014 to \$0.35 billion in 2015 following a period of steady growth of Belarusian FDI stock in 2009–2013 (almost by a factor of 15). Besides, Belarus has lately become the leading recipient of FDI originating from CIS countries and Georgia (this indicator has invariably been in excess of \$8 billion since 2011).

1. MUTUAL DIRECT INVESTMENTS IN THE CIS AT THE END OF 2016

FDI Recipient Country	Investor Countries' FDI Stock, \$ Billion						
	Russia	Kazakhstan	Azerbaijan	Belarus	Ukraine	Georgia	All 12 Countries
Azerbaijan	0.89	0.01	X	0.01	-	0.00	0.91
Armenia	3.44	0.00	-	0.00*	0.09	0.08	3.62
Belarus	8.52	0.06	0.00*	X	0.02	0.02	8.64
Georgia	0.80	0.46	1.94	0.00*	0.15	X	3.38
Kazakhstan	8.21	X	0.02	0.03	-	-	8.27
Kyrgyzstan	0.86	0.61	-	0.00	-	-	1.47
Moldova	0.40	-	-	0.01	0.08	-	0.49
Russia	X	2.95	0.25	2.05	0.77	0.03	6.11
Tajikistan	0.93	0.01	-	0.00	0.00	-	0.95
Turkmenistan	0.25	0.00*	-	0.00*	0.00*	-	0.25
Uzbekistan	5.30	0.08	-	0.00*	0.00	-	5.41
Ukraine	5.19	0.16	0.18	0.03	X	0.03	5.57
Total	34.78	4.32	2.40	2.14	1.12	0.15	45.05

Table 1. Mutual FDI Scope at the End of 2016 (MIM CIS Data)

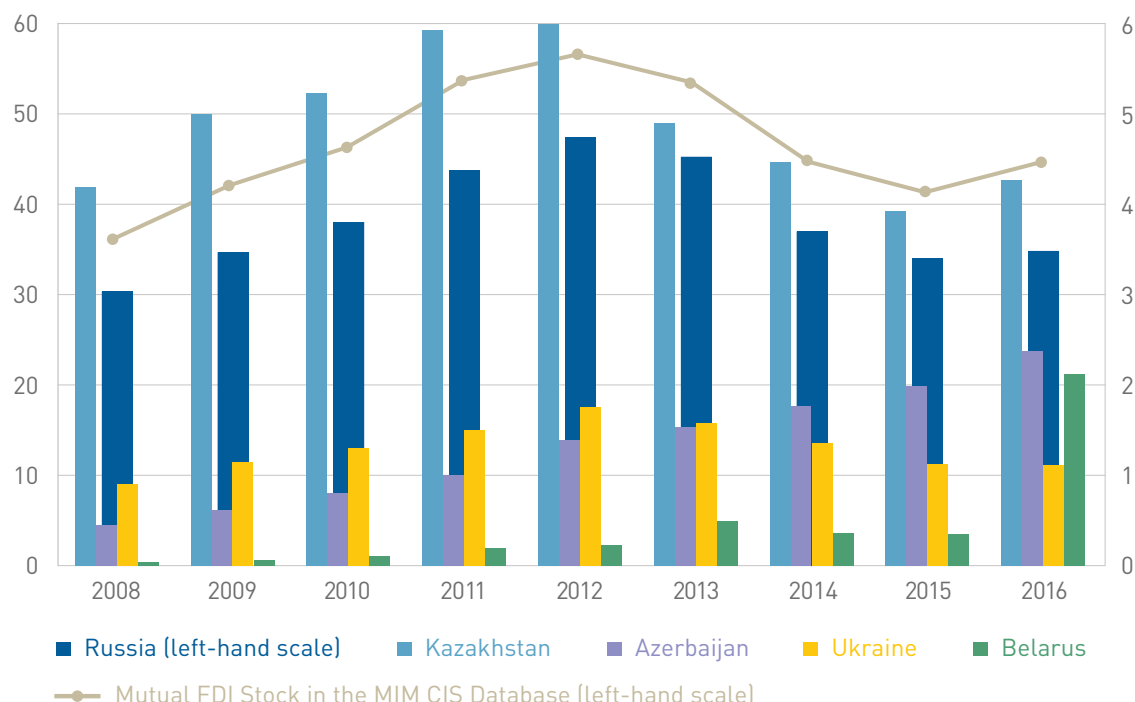
* For these investment pairs, the MIM CIS Database contains only information about FDI projects valued below \$1 million.

In 2016, we witnessed a relative stabilization of Ukrainian outward FDI stock in the post-Soviet area: it decreased by merely 1.7% after having dropped by more than 10% every year from 2013 to 2015 (from the initial \$1.77 billion). Compared to 2013, Ukraine has gone down from the third to the fifth position in the rating of top FDI exporters to CIS countries and Georgia (see Figure 2).

As a result of the domestic political and economic crisis, Ukraine has lost its position as the leading recipient of mutual FDI from CIS countries and Georgia. While in 2013 Ukraine accounted for \$17.0 billion (or 31.2%), by the end of 2016 that indicator, following a period of unrelenting decline, plummeted to \$5.6 billion (or 12.4%). It is quite possible that in 2017 Ukraine will be overtaken not only by the trio of EAEU founders but also by Uzbekistan where the 2016 year-end figure was \$5.4 billion. Uzbekistan's FDI in Russia remained rather insignificant at \$50 million, despite a tangible growth following the completion of a series of investment projects in Agriculture and Food Products in 2015–2016.

The sixth-largest FDI exporter, with \$0.15 billion, is Georgia, which, until the beginning of 2012, had been one of the largest investors in the post-Soviet area due to the capital investment projects initiated in Russia by B. Ivanishvili. Thus, at the end of 2011, Georgian FDI in CIS countries and Georgia amounted to \$1.73 billion, the third-largest figure

Figure 2. Outward FDI Stock of Key Investor Countries in the CIS in 2008–2016, \$ Billion



after Russia and Kazakhstan. It should be noted, though, that even then Georgia remained a net capital importer in its investment links to the countries within the post-Soviet area.

Armenia and, to a lesser extent, Kyrgyzstan and Tajikistan, are FDI importers. In Armenia, FDI stock originating from CIS countries and Georgia has been growing throughout the period under review, primarily due to Russian capital investments. Russian TNCs dominate in Tajikistan, while in Kyrgyzstan they share the market with investors from Kazakhstan. Turkmenistan and Moldova are the countries with the least involvement in mutual FDI flows in the post-Soviet area.

In terms of sectoral structure, the leading sector for mutual direct investments originating from CIS countries and Georgia is Oil and Gas (see Figure 3). The closest also-rans, with a sizeable lag, are Communication and IT, Non-Ferrous Metals, and Infrastructure Networks. Compared to the end of 2008, the share of Oil and Gas has increased by 10.1 p.p., while the share of Communication and IT has decreased by 10.1 p.p. In the first case, the increase is attributable to the ongoing growth of oil and gas projects, while in the second case the mobile telephony market has reached the point of saturation, and new investment capital is used primarily to retain existing customers. Moreover, new large-scale capital investments tend to become impaired.

Notably, Azerbaijani SOCAR, a major investor in the post-Soviet area, is not investing directly in hydrocarbon production or Oil and Gas-allied industries, focusing instead on expansion of transportation infrastructure and retail networks (petrol filling stations).

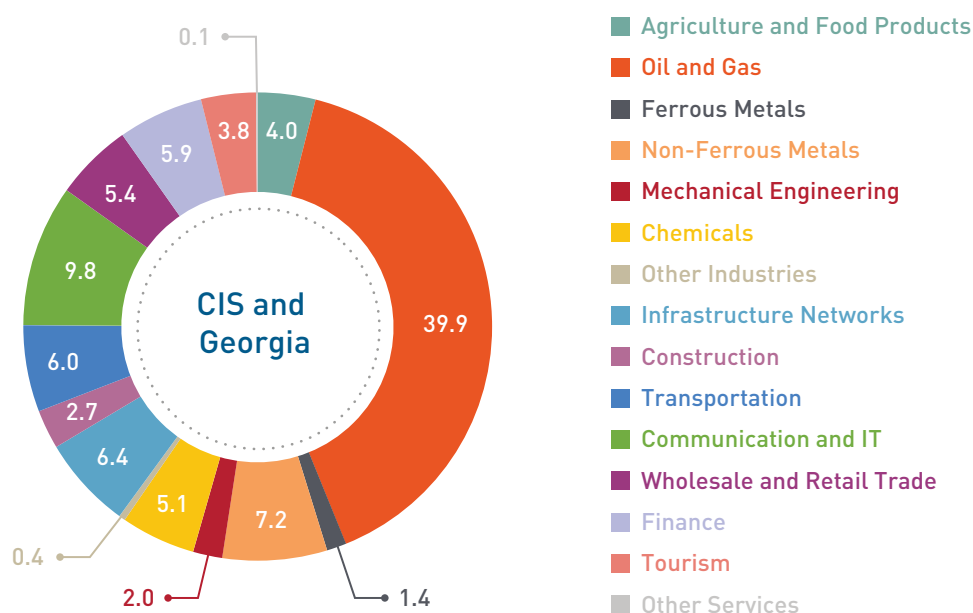


Figure 3. Sectoral Structure of CIS and Georgian Mutual FDI Stock at the End of 2016, %

In the case of Communication and IT, an important assumption is that VimpelCom is classified as a Russian company, even though its Russian investors, who hold a little more than half of its shares (including 47.9% of voting shares) insist on positioning the company as a Dutch TNC headquartered in Amsterdam and formally registered in the Bermuda Islands. To eliminate any remaining “Russian traces”, in the spring of 2017 the company undertook a rebranding exercise, changing its name to “VEON”. If we agree with the position taken by VimpelCom, mutual FDI originating from CIS countries and Georgia will need to be revised downward by 4%, and the share of Communication and IT in total FDI stock will drop to 6% (with the shares of the other sectors increasing accordingly).

Transportation and Non-Ferrous Metals are characterized by relatively stable FDI stock levels. In Finance, which in 2010–2014 was in the third position, substantial growth was replaced in 2014–2016 with a decline, bringing the current indicator below the 2008 level. As with Ferrous Metals, this FDI decline can be explained primarily by a reduction of capital investments in Ukraine.

Despite a large number of projects in the MIM CIS database, the high-performance indicators posted by Oil and Gas (and by Russia as a whole) are attributable to just a few companies, particularly Gazprom and LUKOIL. It is Russian TNCs that outrank the leading investor companies from other CIS countries in terms of capital export and investment geography (see Table 2). This is a manifestation of the general Russian business trans-nationalization trend where the largest companies prove to be the most stable for a variety of reasons, ranging from the excessive monopolization of the Soviet economy and the selected-privatization model to the unique model of relations between business

Table 2. Top Investor Companies in the MIM CIS Database at the End of 2016

Investor Company	Country	Main Recipient Sector of the Company's FDI	FDI Stock, \$ Billion	Countries in the Region with Active Subsidiaries (with FDI in Excess of \$1 Million)	Main Recipient Country in the Region	Share of That Country, %
Gazprom (including Gazprom Neft)	Russia	Oil and Gas	8.34	9	Belarus	62
LUKOIL	Russia	Oil and Gas	7.59	6	Uzbekistan	50
VimpelCom (since 2017: VEON)	Russia	Communication and IT	1.82	8	Kazakhstan	43
MTS	Russia	Communication and IT	1.79	5	Belarus	46
Yuras Oil	Belarus	Chemicals	1.75	1	Russia	100
SOCAR	Azerbaijan	Oil and Gas	1.29	2	Georgia	87
Meridian Capital	Kazakhstan	Transportation	1.19	3	Russia	92
VS Energy	Russia	Infrastructure Networks	1.08	1	Ukraine	100
Polymetal	Russia	Non-Ferrous Metals	0.87	2	Kazakhstan	92
Verny Capital	Kazakhstan	Tourism	0.87	2	Russia	81

and government. Nevertheless, the list of leaders does include certain other entities, such as VS Energy Group owned by M. Voevodin, A. Babakov, and a number of other Russian entrepreneurs focusing on doing business in neighboring Ukraine. It is a different matter that the outlook for such entities' FDI has lately been growing increasingly dim. Ex-leaders may also have other geographic preferences. A recent example is the Kazakh Ivolga-Holding, whose flagship agricultural enterprises in the Kursk Region in Russia have been declared bankrupt.

At the end of 2016, the companies comprising the Russian top four (Gazprom, LUKOIL, VimpelCom, and MTS) accounted for \$19.5 billion of total FDI stock. This represents more than 43% of total mutual direct capital investments in CIS countries and Georgia (or almost 56% of total Russian FDI in the post-Soviet area). The top ten (which now include not only Russian investors but also Belarusian, Azerbaijani, and Kazakh investors) accounts for 59% of total mutual FDI stock in CIS countries and Georgia (with about 75% of that stock owned by the 25 largest investors, including 20 Russian investors).

1.2. Distinguishing Features of Russian Direct Investments in CIS Countries

The domination of Russian FDI in mutual FDI originating from CIS countries and Georgia is largely determined by dynamic and structural similarities between total mutual FDI stock in this region and Russian FDI alone. A more thorough review of Russian FDI is particularly interesting in the light of recent improvements of direct investment statistics published by the CBR—currently, official Russian statistics offer a level of detail many times higher than that seen in any other CIS country. Incidentally, there exist considerable differences between MIM CIS data and CBR statistics (see Table 3); most of the reasons for that have been explained above.

The 2016 year-end MIM CIS figures for all countries without exception are higher than CBR figures. In many cases, we are dealing with qualitative differences. For example, according to official statistics, Russia has almost no investment ties with Uzbekistan, even though LUKOIL alone is known to have invested billions of dollars in that country (but through third countries, as all foreign hydrocarbon-production operations are conducted via LUKOIL Overseas). The same is true for Azerbaijan. The information regarding the existence of meaningful investment flows from Russia is significant not only economically but also politically, particularly in view of the fact that both these countries are currently refraining from closer integration with the EAEU. Besides, CBR statistics strongly understate the investment presence of Russian businesses in EAEU member states (for example, in the case of Kazakhstan because of the FDI made through offshore companies in oil and gas projects as well as in Non-Ferrous Metals, and in the case of Belarus because of differences in the approach to Gazprom FDI valuation).

Based on the information contained in the MIM CIS database that can be compared with UNCTAD data published in June 2016 (UNCTAD, 2017, p. 229), we come to the conclusion that at the end of 2016 the largest share of Russian companies in total FDI stock of all countries under review was in Armenia (74%), Uzbekistan (59%), Belarus (45%), and Tajikistan (39%). Turkmenistan (0.7%), Azerbaijan (3.3%), and Georgia (5.6%) were on the opposite end of the spectrum. At the same time, the Azerbaijani share of FDI stock in Georgia was almost 13.8%.

The 2016 year-end figures posted by Kazakhstan and Ukraine, the key Russian FDI recipients in the region (in absolute terms), were in the middle of the range, with Russia's share of total inward FDI stock amounting to only 6.3% and 10.7%, respectively. In Kyrgyzstan, the share of Russian FDI was 16.8%, while Kazakh FDI accounted for 11.9%. In Moldova, the share of Russian FDI was 11% vs. 2.3% for Ukraine, another important source of FDI in that country.

Of the 724 projects with FDI stock in excess of \$1 million during at least one year during the 2009–2016 period, 494 were Russian projects (there was also one joint Russian-Kyrgyz project). By the end of 1999, only 71 projects had been launched, with only 10 of those originating from countries other than Russia. It should be noted, however, that we are dealing only with companies that continued to maintain nonzero FDI at least until the end of 2008, the first year of the MIM CIS database coverage. Transboundary investment activity in the CIS peaked in the early 2000s, by which time non-Russian companies were also involved. A total of 409 new projects were registered

Table 3. Russian FDI Stock in CIS Countries and Georgia in 2009–2016 (Comparison of CBR and MIM CIS Data)

Country	Russian Outward FDI Stock, \$ Billion									
	2009		2011		2013		2015		2016	
	MIM CIS	CBR	MIM CIS	CBR	MIM CIS	CBR	MIM CIS	CBR	MIM CIS	CBR
Belarus	4.6	5.7	8.0	4.7	8.3	4.1	8.4	3.6	8.5	3.8
Kazakhstan	9.7	1.7	10.1	2.6	8.8	2.8	7.3	2.7	8.2	3.0
Uzbekistan	2.9	0.8	3.6	0.9	4.4	0.3	5.0	0.4	5.3	0.2
Ukraine	12.2	4.2	15.3	4.5	17.4	6.0	6.3	1.9	5.2	3.4
Armenia	2.1	1.5	2.5	1.4	2.9	1.4	3.1	1.4	3.4	1.4
Tajikistan	0.7	0.2	1.1	0.6	1.1	0.6	1.0	0.5	0.9	0.4
Azerbaijan	1.2	0.1	1.4	0.1	0.9	0.2	0.8	0.0	0.9	0.0
Kyrgyzstan	0.2	0.1	0.4	0.1	0.6	0.2	0.7	0.2	0.9	0.2
Moldova	0.6	0.3	0.7	0.4	0.4	0.5	0.4	0.2	0.4	0.2
Turkmenistan	0.1	0.3	0.2	0.0	0.2	0.0	0.2	...	0.2	...
<i>Total CIS</i>	34.3	14.9	43.2	15.3	44.4	16.1	33.2	10.9	34.0	12.6
Georgia	0.3	0.3	0.5	0.2	0.8	0.5	0.9	0.3	0.8	0.3

Note: Some of the previously published indicators have been adjusted following a review of the latest corporate financial statements.

Sources: MIM CIS and CBR (2017b).

in 2000–2008, with 120 (29%) originating from countries other than Russia. Another 244 new projects emerged in 2009–2016, despite certain economic crisis developments affecting the post-Soviet area (not to mention the full-scale political crisis in Ukraine), with 100 (41%) of those projects originating from countries other than Russia.

It is important to note that, by that time, more than 200 projects had already ceased to exist (enterprises had been closed down or sold to local investors or TNCs from countries outside the CIS and Georgia). 71% of the terminated projects involved Russian FDI (see Figure 4). Major losses were also sustained by investors from Kazakh companies (which is logical given that this country was the second-largest FDI exporter to CIS countries and Georgia) and Ukrainian companies (mostly in 2014–2015). The reasons for project terminations could have been both macroeconomic and internal to specific companies (ranging from financial problems that the management hoped to resolve by selling off foreign assets, to the approval of long-term strategy changes, including internationalization plans).

The peak of Russian investment-project terminations occurred in 2014 and was attributable primarily to the recent developments in Ukraine. Moreover, 12 of 52 deals are Russian projects in Crimea and Sevastopol that were formally excluded from the list of FDI projects. The relatively large number of project terminations in 2015–2016

1. MUTUAL DIRECT INVESTMENTS IN THE CIS AT THE END OF 2016

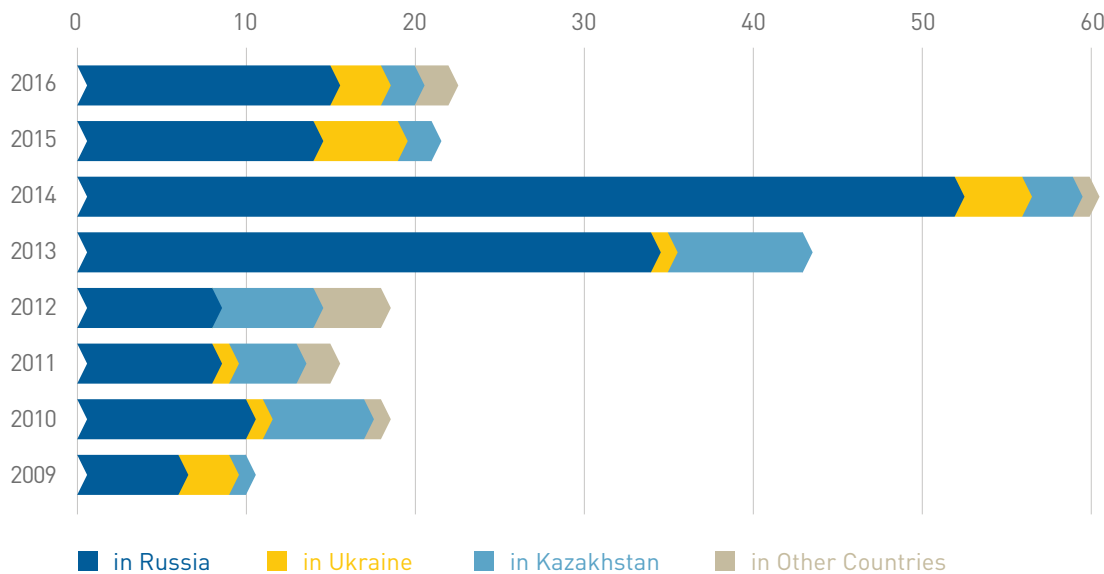


Figure 4. Termination of Investment Projects (with Values in Excess of \$1 Million) in the MIM CIS Database, by Year

compared to 2011–2012 is attributable to, among other things, the general increase in the number of projects recorded in the MIM CIS database.

1.3. EAEU Investors' Priorities: New Integration Project vs. CIS

Out of the existing CIS investment pairs, the top five at the end of 2016 is made up of pairs with the participation of Russia (see Figure 5):

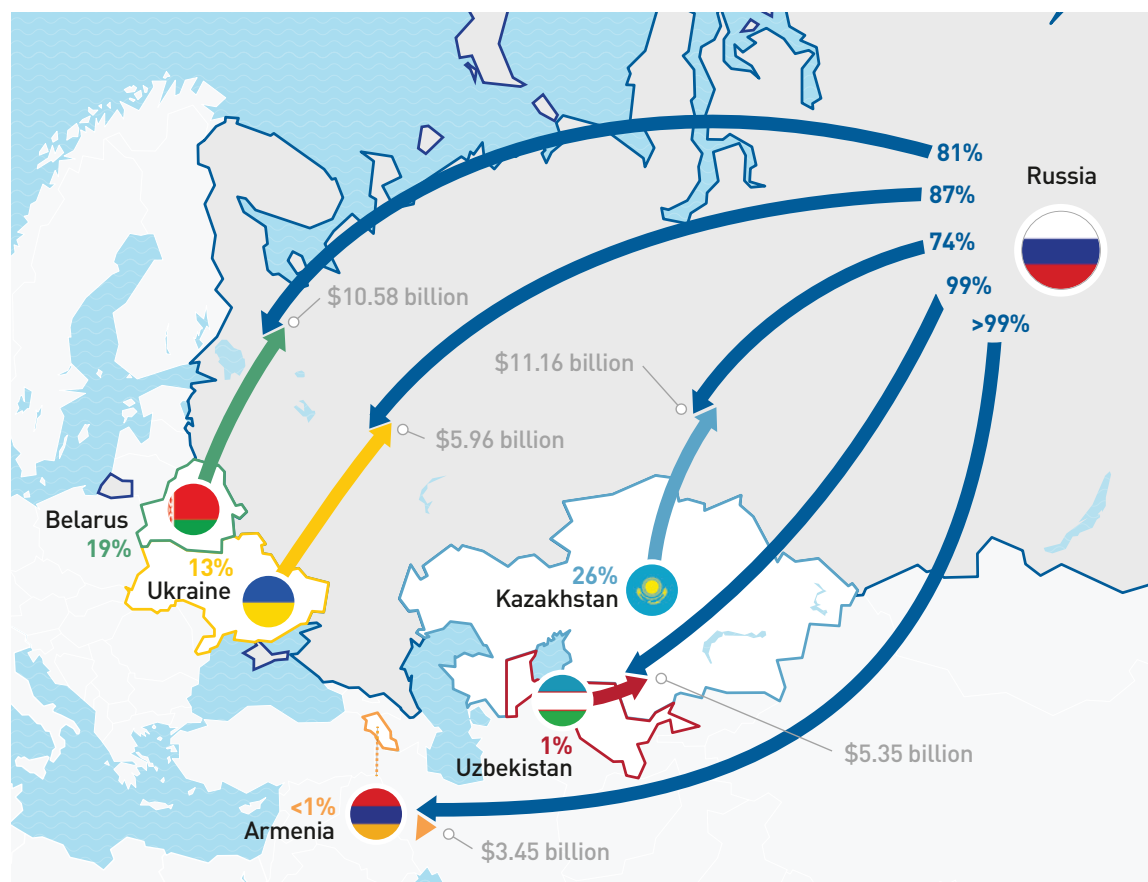
1. Russia – Kazakhstan (\$11.16 billion, with 74% represented by Russian outward FDI)
2. Russia – Belarus (\$10.58 billion, with 81% represented by Russian outward FDI)
3. Russia – Ukraine (\$5.96 billion, with 87% represented by Russian outward FDI)
4. Russia – Uzbekistan (\$5.35 billion, with 99% represented by Russian outward FDI)
5. Russia – Armenia (\$3.45 billion, with almost 100% represented by Russian outward FDI)

Clearly, the two leading pairs consist of Russia and its EAEU partners, which generate a rather weighty counter-flow of capital investments, unlike Ukraine or, even more so, Uzbekistan.

Excluding Russia, only 9 investment pairs (of the 55 possible) had 2016 year-end mutual FDI stock in excess of \$80 million:

1. Azerbaijan – Georgia (\$1.95 billion, dominated by Azerbaijani FDI)
2. Kazakhstan – Kyrgyzstan (\$0.61 billion, dominated by Kazakh FDI)
3. Kazakhstan – Georgia (\$0.46 billion, dominated by Kazakh FDI)
4. Azerbaijan – Ukraine (\$0.18 billion, dominated by Azerbaijani FDI)
5. Ukraine – Georgia (\$0.18 billion, dominated by Ukrainian FDI)

Figure 5. Leading Investment Pairs in the MIM CIS Database at the End of 2016



6. Georgia – Armenia (\$0.10 billion, with more than three-quarters represented by Georgian FDI)

7. Kazakhstan – Belarus (\$0.09 billion, with Kazakh FDI exceeding Belarusian FDI by a factor of less than two)

8. Ukraine – Moldova (\$0.08 billion, dominated by Ukrainian FDI)

9. Kazakhstan – Uzbekistan (\$0.08 billion, dominated by Kazakh FDI)

These pairs essentially reflect the “neighborhood effect”. The only exception is Kazakhstan and Belarusian mutual investments (which incidentally proved to be the most balanced in terms of FDI stock accepted by partner countries).

One of the previously notable investment pairs is Kazakhstan – Moldova, dominated by Moldovan FDI. In 2008–2009, the value of those investments exceeded \$100 million, and they were concentrated in Oil and Gas. The investments were made by entities owned by Moldova’s richest man, Anatol Stati, controlling Mangystau Region-based hydrocarbon producers LLP Kazpolmunai and LLP Tolkyneftegaz via Tristan Oil, an offshore company. The projects became notorious after controversial international

court proceedings where the owner accused Kazakh authorities of having confiscated his investment assets worth more than \$0.5 billion, while Kazakh authorities, in turn, explained their decision to terminate operations conducted by the foreign investor by their illegal nature, claiming that Kazakhstan had sustained damage of more than \$1 billion. Regardless of the legality of the relevant activities, it is clear that the Moldovan investor was forced to partially reinvest his profits to sustain continued operations in Kazakhstan (he even launched the construction of the Barankol Gas Processing Facility). However, according to our estimates, the amount of FDI stated in the claim was grossly overstated (this assumption is indirectly supported by contemporaneous media reports, in which Moldovan FDI in Kazakhstan was estimated at slightly more than \$120 million).

Generally, it is too early to speak about the influence that the EAEU integration project exerts on mutual FDI. This is because direct capital investment is a much more inertial process than foreign trade. The only unambiguously positive sign is the preservation of intensive investment contacts between companies operating in EAEU member states, in the meantime clearly negative political signals are almost instantaneously perceived, and acted upon, by TNCs. Developments in Ukraine over the last several years provide convincing proof of that. As for specific quantitative parameters, they have been affected by a large number of factors that are not in any way related to integration (beginning with the decline of Russian GDP and the devaluation of the Russian ruble).

A more detailed treatment of mutual FDI by EAEU member states, including individual projects emerging over the last several years, will be provided in the second part of this report. Here, we will only dwell on the more general trends that may indirectly reflect the preferences followed by other post-Soviet states in choosing their mutual FDI partners.

Thus, compared to the 2012 peak value, by the end of 2016 Russian FDI stock in CIS countries and Georgia dropped by 26.6%, while FDI in Russia's four EAEU partners decreased by only 4.2%. Moreover, Russian FDI stock in Armenia, Belarus, and Kyrgyzstan increased. Naturally, this significant disparity is linked primarily to the phasing out of previously quite vigorous investment activities of Russian TNCs in Ukraine (furthermore, since the end of 2014, investments made by Russian companies in Crimea and Sevastopol have lost their FDI status). Nevertheless, over the last four years, there has been a reduction of Russian FDI stock in several CIS countries that have not acceded to the EAEU, including Azerbaijan, Moldova, and Tajikistan.

At the same time, compared to 2012, Kazakh FDI stock in CIS countries has, over the last four years, decreased by 28.8%, while FDI in EAEU member states has decreased by 32%, with massive reductions recorded in all countries with the exception of Belarus. It should be remembered, though, that the relatively modest FDI decline in non-EAEU countries was attributable to a single project in Georgia—the successful completion of the construction of a five-star hotel in Borjomi by the Kazakh oil and gas giant KazMunaiGaz. Conversely, almost 59% of the FDI decline in the EAEU resulted from the success of the developer Capital Partners in finding new foreign owners (western investment funds) for most office and commercial premises in the Moscow-based Metropolis complex.

Since Belarusian FDI is dominated by capital investments in Russia, it would not be quite correct to undertake any trend analysis. Suffice it to say that in 2013–2016, FDI originating from Belarus increased not only in Russia but also in Kazakhstan and Kyrgyzstan, as did Armenian FDI in Belarus (other FDI flows between the smaller EAEU member states were more or less stable, or their value was negligible).

An analysis of investment projects undertaken by specific companies shows that they do not directly incorporate the EAEU factor in their FDI decision-making. At the same time, as exemplified by the European Union, companies from countries acceding to an integration association inevitably begin to boost their mutual investment flows where liberalization of foreign economic ties between member states proves to be real, even if many businessmen are initially not overly enthusiastic about supporting the economic integration process.

1.4. Continued Incremental Growth of FDI Originating from Azerbaijan

Azerbaijan is one of the most active investors in CIS countries and Georgia. Despite a deceleration of economic growth due to adverse oil market conditions and a sizeable devaluation of its national currency over the course of several years, Azerbaijan is still prepared to invest in the region. Azerbaijan is particularly interested in transportation projects, including the Baku-Tbilisi-Kars Railway, and projects designed to further expand trade and power infrastructure.

By the end of 2016, Azerbaijani direct investment stock in CIS countries and Georgia approached \$2.4 billion (according to updated data, in 2015 that indicator had exceeded \$2.0 billion). The steady nature of Azerbaijani regional investment growth should also be noted, with FDI stock increase indicators in any given year expressed by two-digit figures (10.2% in 2013, 15.3% in 2014, 12.6% in 2015, and 19.4% in 2016).

The 2016 year-end sectoral allocation of Azerbaijani direct investment stock in CIS countries and Georgia is quite diversified. Azerbaijani capital is traditionally attracted to Transportation (47.4%), Wholesale and Retail Trade (19%), Infrastructure Networks (11.7%), and Construction (11.6%).

Investments in Transportation are represented by construction of logistical centers in Belarus, Russia, and Kazakhstan and the largest regional project that involves Azerbaijani FDI—the construction and expansion of the Kulevi Oil Terminal in Georgia.

In Wholesale and Retail Trade, the key investors in the region include SOCAR, which is building up a PFS network in Georgia and Ukraine, and Embawood, a private company that owns furniture factories and a retail network in Kazakhstan and Georgia. The latter is also showing some interest in launching several new production facilities in Central Russia in 2017–2018.

The Finance sector, with a 2016 year-end share in total Azerbaijani FDI stock in CIS countries and Georgia standing at 5%, is most sensitive to currency rate fluctuations. In this connection, we might recall the considerable increases of IBA-Moscow charter capital in 2014 and 2016. Despite the default of the head unit—International Bank of Azerbaijan—which was announced in May 2017, the Russian subsidiary is expected to stay afloat.

Following the closure of Caucasian Development Bank (Georgia), two large Azerbaijani banks (IBA-Georgia and Pasha Bank Georgia) remained active in Georgia in 2016.

Since 2012, there has been a significant inflow of investment capital into Construction and Tourism. In 2016 alone, more than a quarter of all new Azerbaijani direct investments in the region was used to finance the construction of two hotel complexes in Russia. Large-scale construction projects include two residential complexes (Dirsi in Tbilisi and Pirogov Riviera in Moscow); considerable funds have also been channeled into the production of construction materials in Russia and Ukraine.

It is necessary to note the reduction of the share of investments made by state-owned companies from 97.4% in 2010 to 80% in 2016. This demonstrates the increased willingness and ability of private Azerbaijani companies to invest in CIS countries and Georgia—over the course of six years, private Azerbaijani FDI in the post-Soviet area has exceeded \$450 million.

There is a noticeable expansion of the territorial structure of Azerbaijani investment stock in the region: the share of Georgia, the largest recipient of Azerbaijani direct investments, decreased from 96% at the end of 2008 to 81% at the end of 2016, even though the value of investments is steadily growing in absolute terms. This can be explained by the geographic proximity of the two countries, the similarity of their political vectors, and the close economic cooperation in matters of bilateral trade and third-country transit. In May 2015, it was announced that construction of a €700 million carbamide plant would be suspended, and that a \$120 million oil refinery would be built instead in Kulevi in 2017. No new large-scale projects in Georgia were recorded in 2014–2016. At the same time, Azerbaijani investors display an ever-growing interest in Russia and in Ukraine (which has lately been quite unusual among most other post-Soviet investors).

Over the last three years, there has been a considerable increase in the number of major Tourism and Construction investment projects implemented in Russia, with the share of Azerbaijani investors increasing from 2.4% in 2013 to 10.5% at the end of 2016. Two large-scale projects deserve special mention: the construction of the Ene-Sai Hotel Complex in the Republic of Tyva and the construction of the Istochnik Resort and Spa in Stavropol Krai. The first project is valued at \$33 million, the second at \$25 million. In 2016, an investment project was also implemented in Mechanical Engineering: a private company, AS Group Investment, provided investment financing to the Kirov Engineering Plant “Kirovsky Mashzavod 1 Maya”, which has been experiencing financial problems since 2014. It is expected that, in 2017, Azerbaijani investors will commence a number of new projects in Russia, with a special emphasis on Dagestan.

The share of Ukraine in 2012–2016 has been rather steady, fluctuating within the range of 7.5% to 9.0% (e.g., at the end of 2016, it was 7.6%, which is consistent with the level recorded in 2013). Most investments are concentrated in Wholesale and Retail Trade (SOCAR PFS network).

Belarus has only one major Transportation project with Azerbaijani investment capital, namely, the construction of the Globus Park Trade and Logistics Center.

Kazakhstan has been receiving Azerbaijani investments within the framework of three major projects in Trade, Transportation, and Mechanical Engineering since 2014, and

by the end of 2016 the country's share went up to 3%. No large-scale direct investments originating from Azerbaijan were recorded in the other countries of the region.

Azerbaijan is a net exporter of FDI with respect to all CIS countries (except for Russia) and Georgia. Russia's share of total FDI stock received by Azerbaijan from the region is a steady 98%, complemented with rather insignificant investment inflow from Belarus, Kazakhstan, and Georgia. Investments originating from Russia are concentrated in Oil and Gas and account for four-fifths of all FDI from the region. The investment inflow fluctuates quite strongly from year to year. The largest investment project is represented by the 10% stake held by LUKOIL in the Shah-Deniz gas field (a \$1 billion credit was extended to the company in 2015 to develop the field). It should be noted that, since 2010, the share of Oil and Gas in total investments has been steadily decreasing, primarily due to the partial sale by Russian companies of stakes in gas and oil fields (another important factor is the devaluation of the Azerbaijani manat vs. the US dollar).

Other important target sectors include Finance and Wholesale and Retail Trade. Finance investments are represented by a VTB subsidiary in Baku, the privately owned NIKOIL Commercial Investment Bank, and the Georgian TBC Bank (the only large-scale Georgian project). The undisputed leading investor in Wholesale and Retail Trade is LUKOIL, which is busy deploying a proprietary PFS network throughout Azerbaijan. The only major project with the participation of Kazakhstan is the Baku Grain Terminal where Kazakh Food Contract Corporation has a 50% stake. There are several joint ventures within Machine Engineering and Agriculture and Food Products with Belarusian state-owned companies currently operating in Azerbaijan, but there is no reason to believe that the Belarusian side has made any sizeable capital contributions.

The only large-scale project launched in 2016 is the construction of a pharmaceutical plant in Baku, with a 45% stake held by the Russian privately owned company R-Pharm. The total value of the project is estimated at \$74 million.

The results achieved in 2016 lead us to conclude that Azerbaijan and Russia are strengthening their investment cooperation. While some projects remain on paper, others have already been implemented or are nearing completion. Ongoing projects envisaging construction of innovative high-tech enterprises, such as the pharmaceutical plant in Baku, are the exception rather than the rule.

1.5. Ukraine: FDI Exports and Imports Down for the Fourth Year in a Row

According to the MIM CIS database, in 2016 total direct investments in Ukraine by CIS countries dropped again, this time by 16.3% (from \$6.7 billion to \$5.6 billion vs. the record-breaking \$17.8 billion at the end of 2012). A detailed analysis of foreign investments received by the Ukrainian economy on the level of individual sectors and projects shows that investment cooperation between Ukraine on the one hand and CIS countries and Georgia on the other is developing in a rather lopsided fashion.

Major Russian banks were the main source of new foreign capital infusions into the Ukrainian economy, like they were the year before. Thus, Vnesheconombank increased the charter capital of its Ukrainian subsidiary from UAH 8.2 billion to UAH 19.0 billion

in 2015 (USD 1.00 = UAH 23.90) and then to UAH 40.6 billion in 2016 (USD 1.00 = UAH 27.10). VTB Group, Sberbank of Russia, and Alpha-Bank also made capital contributions to their respective Ukrainian subsidiaries. However, constant losses prevent Russian bank subsidiaries in Ukraine from boosting their equity. For example, at the end of 2016, the equity of the Ukrainian Vnesheconombank subsidiary stood at UAH 3.6 billion. On the whole, total 2016 year-end equity owned by the four largest Russian banks in Ukraine amounted to merely UAH 13.3 billion (\$0.49 billion) vs. aggregate charter capital of UAH 94.8 billion (\$3.5 billion) (in 2016, it increased by UAH 39.7 billion or more than \$1.6 billion).

Difficult economic conditions forced certain smaller credit institutions to discontinue their Ukrainian operations. Thus, Bank of Georgia (whose Ukrainian assets in different years ranged from \$2 million to \$7 million) liquidated its branch in Ukraine in the beginning of 2016. The 2015 attempt by Russian Alpha-Bank to expand its footprint in the Ukrainian market—in an apparent hope that its formal EU (Cyprus) registration would protect it against political risks—proved unsuccessful: its locally acquired banking asset (Neos Bank) had to be sold in the middle of 2016. The Russian financial conglomerate Troika Dialog, an entity with a relatively modest Ukrainian presence (at or below \$4 million), sold its Ukrainian branch to its Kiev-based counterparty. Bank of Moscow stayed in the Ukrainian market but at the cost of a massive asset impairment: according to the bank's financial statements, the equity of its Ukrainian branch (taking into consideration a more than threefold increase of its accumulated deficit) was \$9 million at the end of 2016, compared to \$34 million and \$94 million at the end of 2015 and 2013, respectively. Accordingly, we estimate year-end aggregate FDI stock in Ukrainian banking assets (provided by Russian and Kazakh financial institutions) at slightly more than \$0.6 billion.

A sizeable contribution to the increase of foreign investment in Ukraine was made by VS Energy, a company owned by Russian citizens M. Voevodin, A. Babakov, and others, which owns controlling stakes in approximately half of all regional power companies in Ukraine. For example, a hefty increase in the value of noncurrent assets was recorded by Zhitomiroblenergo (+\$59 million) and Odessaoblenergo (+\$58 million).

Despite the transfer of impressive and statistically significant amounts, the above examples represent exceptions rather than the rule. The overwhelming majority of Russian companies still approach the Ukrainian market with extreme caution, refraining from building up their asset base, which, due to the ongoing devaluation of the hryvnia, is tantamount to their impairment. In particular, like the year before, retail trade companies continued to lose their Ukrainian assets: in 2016, the Center-Obuv footwear-shops network left the country, while the Atlant-M group closed some of its representative offices. Oil, petrochemical, and metallurgical companies also continued to withdraw their assets. LUKOIL, previously one of the largest investors in the Ukrainian economy, sold the Lukor Petrochemical Plant and negotiated the sale of Karpatneftechim, its last asset in the country.

Russian companies continued to publicly assess their losses from hostilities in Eastern Ukraine. Mechel recognized that one of its assets, Donetsk Electrometallurgical Plant,

had lost 100% of its value, and Mechel proceeded to exclude the asset from its financial statements. However, numerous enterprises operating in the Donetsk and Lugansk Regions have not yet published updated asset valuations: no information is available on the damage sustained by Rosneft's PFS network (the anticipated sale of the asset to Swiss-based Glusco Energy SA is likely to be completed at a large discount), Luganskteplovoy (a diesel locomotive plant owned by Transmashholding), PJSC Evraz Sukhaya Balka, Premier Hotel Prague in Donetsk (owned by VS Energy), LLC Rubzhansk Pipe Plant (owned by Polyplastic), LLC Slavkhim (owned by Uralchem), and some other companies. Nevertheless, some enterprises, such as the Russian garment manufacturer Gloria Jeans, continue to operate successfully in the region.

No major investment deals with CIS-based companies were recorded in Ukraine in 2016. Most investors were middle-sized companies seeking to internationalize their operations, and they publicly distanced themselves from Russia as their country of origin. For example, at the end of 2016, Luxoft, an originally Russian entity that is currently positioning itself as a global IT company, acquired the Ukrainian software developer IntoPro. Its total investment, however, was probably limited to \$1.5–2 million.

On the whole, Russian investors continued to dominate among post-Soviet investors in the Ukrainian economy. At the end of 2016, Russian TNCs accounted for 93.1% of FDI stock originating from CIS countries and Georgia. Among the other countries of the region, only Azerbaijan displayed some interest in the Ukrainian market, with SOCAR announcing plans to expand its PFS network in Kiev and Kiev Region. At the same time, according to Ukrstat, at the end of 2016, the share of Russian investments in total direct investments in the Ukrainian economy amounted to 11.6% (State Statistical Service of Ukraine, 2017). That figure was beaten only by the Netherlands (15.7%) and Cyprus (25.6%), both traditionally perceived as “transit” jurisdictions extensively used to channel Russian capital into Ukraine.

Over the last several years, the regional structure of Ukrainian FDI originating from CIS countries and Georgia has also undergone considerable change. Due to all “regional” FDI made by certain service companies (often the most strongly affected by the political and economic crisis in Ukraine) having been previously “pegged” to the capital city, the share of Kiev and Kiev Region has somewhat decreased from its peak of 50.5% in 2012 (when total Ukrainian inward FDI stock originating from the post-Soviet area amounted to \$17.8 billion) to 48.3% (of \$6.7 billion) in 2015 and then to 45.4% (of \$5.6 billion) in 2016. We note a conspicuous decrease in the share of Donetsk Region, even though the eastern part of Ukraine has generally improved its positions despite the fact that capital investments from CIS countries and Georgia have shrunk in absolute terms. In 2012, the seven eastern regions—Donetsk, Lugansk, Dnepropetrovsk, Zaporozhye, Poltava, Sumy, and Kharkov Regions—accounted (excluding FDI “pegged” to the capital city) for 26.2% (\$4.7 billion); in 2015 and 2016, that indicator changed to 31.9% (\$2.1 billion) and 30.6% (\$1.7 billion), respectively. Still, the share of Donetsk Region, an area engulfed in a civil war, dropped from almost 10% in 2012 to 7% in 2015 and then to 5% in 2016. Similarly, significant relative decreases were recorded in Ivano-Frankovsk and Rovno Regions, the only two western regions that, prior to the onset of the Ukrainian crisis,

had received sizeable Russian FDI, with LUKOIL and Transneft, respectively, subsequently being simply squeezed out of those areas. In 2012, their shares in total Ukrainian FDI originating from CIS countries and Georgia amounted to 3.3% and 3.5%, respectively, but plummeted to 2.3% and 0.9%, respectively, by the end of 2015 and to 1.3% and 0.9%, respectively, by the end of 2016.

Ukrainian investments in CIS countries continued to decrease but at a much slower rate than during the two previous years. As before, the main driving force was not the political factor but the difficult economic situation in the country and the financial instability experienced by individual companies. For example, Milkiland lost its Russian asset (Rylsky Syrodel Cheese Factory), which was used to pay off its debts. The Armavir Rolling Mill, owned by the Industrial Union of Donbass, was also declared bankrupt. The destiny of the Lipetsk-based Roshen Confectionery Corporation (which was put up for sale in 2016) is still unclear. The status of the few investment projects undertaken by Ukrainian companies in the other CIS countries has remained generally unchanged (or no reliable information is available with respect to such projects), which may testify to the fact that Ukrainian business has focused on the domestic market, temporarily forgoing any active internationalization efforts. There is no reason to believe that Ukrainian direct investments in CIS countries will experience any upsurge or even a gradual increase. In all probability, the least economically feasible projects, primarily those based in Russia, will continue to “die off”, and any chance to launch new sizeable investment projects may emerge only after a radical change in the economic and political agenda in the CIS in general and in relations between Russia and Ukraine in particular.

The recent evolution of the Ukrainian investment position points to the country’s increasingly lopsided involvement in the movement of international capital flows: a critical narrowing of direct investment export potential is accompanied by an imposition of additional constraints on sectors and regions that might be targeted by incoming FDI, at least those originating from CIS countries and Georgia. In this context, the most likely forecast for the next several years is that the role of Ukraine in the movement of investment flows within the CIS will continue to decline, and the country will be increasingly excluded from international production chains.

1.6. Role of Other CIS Countries in Mutual FDI

Investments originating from other CIS countries and Georgia are insignificant and are represented mostly by small projects with values often below the mandatory minimum threshold for inclusion in the database (this is true, in particular, for Tajiki and Turkmen FDI, which we discovered only in Uzbekistan).

Uzbek investors have lately been the most active. There were no major deals in 2016, but the Uzbek company Europlastex Invest invested heavily in the construction of a cotton-yarn factory in the Grodinvest Free Economic Zone (Belarus). The enterprise was registered as a resident of the zone in November 2016; construction work commenced in the middle of 2017, with total capital to be invested by 2020 amounting to €60 million.

For the time being, the largest Uzbek investment project in the CIS is LLC Volovsky Broiler in Tula Region (Russia). We estimate FDI stock in that project at \$45 million. The investment agreement was signed for RUB 2.5 billion in 2011, and construction work commenced in 2012. The investment plans of the company, owned predominantly by a group of Uzbek entrepreneurs, are gradually expanding. A meat-processing factory opened in 2016, and the first brand-name store was launched in 2017; a fodder factory and other manufacturing facilities will go live in 2017.

Therefore, all the countries listed above act primarily as recipients of FDI originating from CIS countries and Georgia. FDI stock in Uzbekistan has been growing since the inception of the MIM CIS database, primarily due to investments in Oil and Gas. Russian LUKOIL is the dominant player and has been actively engaged in hydrocarbon production in several fields in Uzbekistan since 2004. In 2016, Uzbek inward FDI originating from the post-Soviet area increased by another 6.4% to slightly exceed \$5.4 billion. However, the Uzbek investment climate cannot generally be described as particularly favorable. For example, a large project was terminated in 2016, following the sale by MTS of a 50% stake in the Uzbek operator Universal Mobile Systems just two years after it had resumed its operations in 2014.

During the period under review, Georgia, while staying away from integration projects in the post-Soviet area (with the exception of its membership in the GUAM Organization for Democracy and Economic Development), nevertheless steadily built up direct investment stock originating from other countries in the region. In 2008–2006, the stock went up from \$1.24 billion to \$3.38 billion, increasing almost by a factor of 2.7. Investment growth was uninterrupted even during those years when the economies of Georgia and its active investment counterparties in the CIS were experiencing a downturn (see Figure 6).

The fact that Georgia is a significant FDI recipient is evidenced by the large number of deals entered into the database (as of the middle of 2017, there were 49 records of projects with FDI in excess of \$1 million during the period under review, including 43 ongoing projects and 6 completed projects) and by their “sectoral diversity”. At the end of 2016, in 10 out of 15 sectors in our classification, the amount of FDI in Georgia exceeded \$100 million, even though the total value of FDI stock originating from CIS countries was not particularly impressive (\$3.4 billion). With the exception of Transportation, which accounts for 41% of total CIS FDI in Georgia, investments in the other sectors are distributed more or less evenly, with \$300–400 million in each of Infrastructure Networks, Wholesale and Retail Trade, and Construction, and \$100–250 million in each of Agriculture and Food Products, Communication and IT, Finance, Tourism, Ferrous Metals, and Non-Ferrous Metals.

Almost all direct investments in the Georgian economy originating from the CIS were made by only four countries—Azerbaijan, Russia, Kazakhstan, and (to a much lesser extent) Ukraine. The shares of the other countries, including Belarus (which has several Georgia-based commodity-distribution companies with nonzero equity) and the neighboring Armenia, have been and remain insignificant.

At the same time, the roles of the key Georgian FDI donors have undergone substantial change over the last decade. Where in 2008 the shares of Azerbaijan, Kazakhstan, and

1. MUTUAL DIRECT INVESTMENTS IN THE CIS AT THE END OF 2016

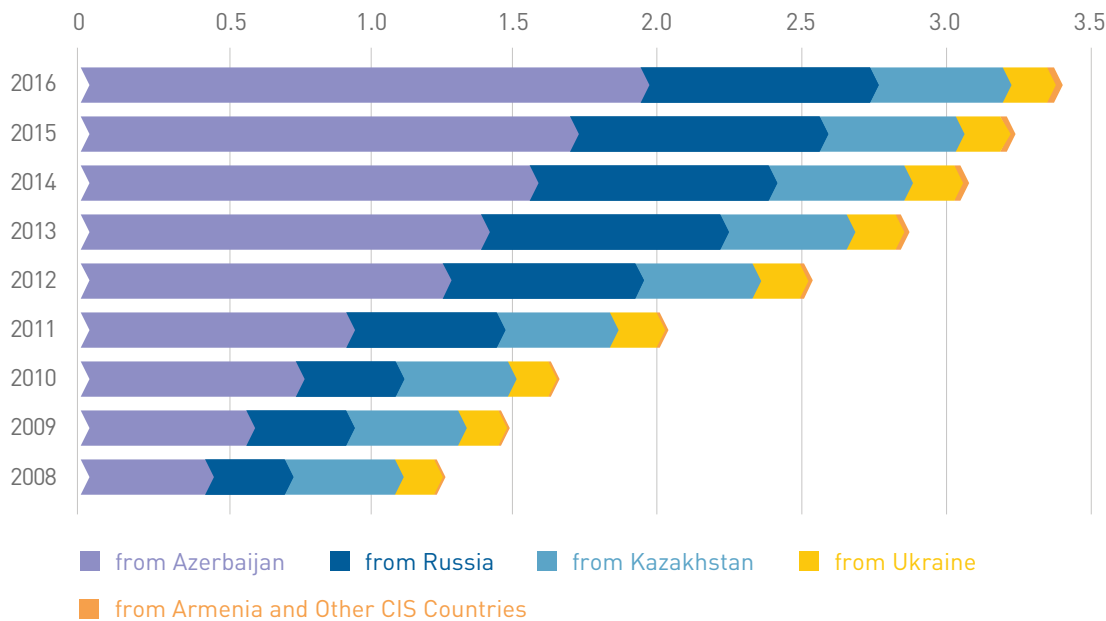


Figure 6. Georgian Inward FDI Stock Originating from CIS Countries in 2008–2016, \$ Million

Russia were almost comparable at 35%, 31%, and 22%, respectively, in 2016 the share of Azerbaijan exceeded 57.5%, while the share of Kazakhstan dropped to 13.6% (the share of Russia was 23.6%). The rapid growth of influence of Azerbaijani capital is attributable, first and foremost, to large-scale investments by SOCAR into gas networks and gas-distribution stations, the Kulevi oil terminal, and a ramified PFS network, making it one of the chief investors in the Georgian economy. Azerbaijani banks (widely represented in the Georgian financial sector since the 2000s), specifically Caucasian Development Bank, International Bank of Azerbaijan, and Azerbaijani Industrial Bank, have traditionally held very strong positions in Georgia. Pasha Bank became the latest Azerbaijani bank to launch a Georgian subsidiary, a bank bearing the same name with a charter capital of \$39 million (a very substantial amount by local standards). Finally, since the 2010s, Azerbaijani businessmen have been actively advancing development projects (construction and renovation of residential compounds and hotels in Tbilisi, Batumi, and other cities).

Importantly, Russian and Kazakh investments also continued to grow in absolute terms. For example, Russian investments have increased by a factor of 2.9, mainly due to the purchase in 2013 by an Alpha-Group company of the controlling stake in IDS Borjomi, a Georgian mineral water producer, and due to major capital infusions into development projects (which have been funneled by Russian entrepreneurs through third countries and are therefore not incorporated into official statistics).

Despite the fact that diplomatic relations between Russia and Georgia were severed after the armed conflict in South Ossetia, JSC Bank VTB (Georgia) continues its operations in Georgia; the bank is owned by VTB Group (principal owner:

Federal Property Management Agency), which in 2011 increased its stake in the Georgian subsidiary to 96.3%. Another example of long-term investments by Russian companies with state equity participation is capital investments by Inter RAO in Georgian distribution and generation facilities, specifically Mtkvari Thermal Power Plant (until 2016 when the asset was sold to a consortium of international investors), Khrami-1 and Khrami-2 Hydro Power Plants, and Telasi Power Grid Company. In addition to that, OJSC Russian Railways owns a 51% stake in the Caucasus-Poti Ferry Line, created to stimulate freight traffic with Armenia. Large private companies operating in Georgia include LUKOIL, which owns oil depots in Tbilisi and Mtskheta Districts, and Vimpel-Com, which controls a 51% stake in the Georgian mobile network operator Mobitel (for more details, see Zav'yalova, 2014).

As for Kazakh investments in Georgia, their growth has been almost exclusively associated with KazMunaiGaz, a Kazakh company that in the late 2000s actively invested in the development of port infrastructure to support energy exports via Georgia and in the last several years boosted capital investments in noncore assets (such as a five-star hotel in Borjomi).

No analysis of Georgian involvement in the movement of direct investments in the post-Soviet area will be complete without a review of foreign capital investments by individual Georgian citizens. Georgian investments in the CIS peaked in 2011 at \$1.7 billion. However, in 2012 their value took a nosedive, and since then it has been fluctuating around \$100 million. The explanation is that the largest deals were executed by one person, B. Ivanishvili, who owned a number of large assets in Russia (including residential and nonresidential properties in Moscow and Moscow Region, the Doctor Stoletov drug store network, etc.) but sold them off in 2012. Today, Georgian capital has significant presence only in Finance: Bank of Georgia controls Belarus People's Bank, and TBC Bank owns a nonbanking credit institution, TBC Kredit, operating in Azerbaijan.

In 2016, Tajiki inward FDI stock decreased by 5.5% to dip below \$1 billion for the first time since 2010 after a four-year decline. One of the key reasons for the decrease was the surrender of exploration licenses for the Rengan, Sargazon, Sarikamysh, and Western Shekhambary sections by Gazprom, which had been conducting geological exploration in Tajikistan since 2008. Furthermore, the joint Kazakhstan-Tajikistan project for provision of financial support to small and medium businesses through the Kazakh-Tajiki Direct Investment Fund has still not taken off.

The Russian-owned Sangtuda-1 Hydroelectric Power Plant remains Tajikistan's largest investment project, but due to the devaluation of the somoni, FDI stock has been slowly decreasing in dollar terms (down to \$410 million at the end of 2016), even though the plant's charter capital and noncurrent assets have changed a little, if at all, in local currency. Russian telecommunication companies have enjoyed relative success in Tajikistan. Following the acquisition of the telecommunication company Tacom in 2006 (first with 90%, then another 8%), VimpelCom has increased its investment to approximately \$100 million (even though this figure is unstable). Megafon entered the local market in 2001 by purchasing a 75% stake in a small Tajiki company, TT Mobile.

Over the last several years, Megafon has been actively engaged in client acquisition, and the amount of its investments in Tajikistan (including in the development of a 4G network) has reached about \$150 million.

Keeping records of direct investments in the Republic of Moldova is methodologically challenging, mainly because investors fail to submit official data on the value of a substantial number of investment transactions, forcing us to rely on expert judgments. This is particularly true for projects in the unrecognized Transnistrian Moldovan Republic where companies from CIS countries have often acquired assets for a symbolic price, assuming an obligation to settle debts and invest a pre-agreed amount into modernization of production facilities (usually leaving the actually invested amount undisclosed). Another problem associated with Transnistria is that most enterprises in this state formation are owned by citizens of the Russian Federation but are not always classified as transboundary investments because there are about 200,000 Russian passport holders permanently residing in Transnistria (Gamova, 2017).

At the end of 2016, the MIM CIS database contained records of 31 Moldova-based investments projects with FDI in excess of \$1 million during any year since 2008 (including 7 completed projects). Total inward FDI stock amounts to \$493 million. The negligible amount of investments shows that Moldova is currently on the fringes of investment cooperation within the CIS. Local investors are showing increasingly less interest in the Moldovan economy: compared to 2011, Moldovan inward FDI stock originating from CIS countries has declined by one-third. Another critical indicator is the insignificant average amount of investments in material projects, which is currently slightly more than \$20 million (while in Georgia, a country comparable to Moldova in terms of population, this indicator is approaching \$80 million).

Among post-Soviet states, Russia's investments in Moldova have been the largest at \$398 million; a figure slightly higher than the investment stock figure published by the CBR (\$233 million as of January 1, 2017) (CBR, 2017b). The overwhelming part of these investments is attributed to three Russian power companies: LUKOIL, which has been building up a proprietary PFS network since the middle of the 1990s; Gazprom, which holds a 50% stake in JSC Moldovagaz (transportation and sale of gas); and Inter RAO, the owner of Moldovan District Power Station in Transnistria. The remaining investments are small and medium-sized projects in the production of alcoholic beverages and juices, restaurant businesses, clothing manufacturers, etc. Until recently, various Russian companies (primarily Metalloinvest) invested in large Transnistrian processing enterprises, including Moldova Steel Works and Rybnitsa Cement Plant; however, due to the low profitability of those assets, most of them have been sold or mothballed. The further buildup of Russian investments is prevented by the operation of a number of factors: the uncertain status of the Transnistrian settlement problem, difficulties in interstate relations between Russia and the Republic of Moldova, the limited capacity of the local market, and persistent institutional restrictions and corruption (Shevchenko, 2015).

Moldova is also targeted by Ukrainian, Belarusian, and Kazakh investors (KazMunaiGaz recently acquired a Romanian oil company, Rompetrol, which owns a network of petrol

filling stations in Moldovan cities). Ukrainian investment projects are dominated by retail networks (the supermarkets Foxtrot, FoxMart, Fourchette, etc.), while Belarus has implemented only one statistically significant project—the establishment by the Belarusian-German company Santa-Bremor (food products, warehousing, and logistics) of Santa-Breeze JV in Ryshkany.

Turkmenistan—which fills in the last line in the list of post-Soviet FDI recipients—is represented by only three significant projects, all originating from Russia: MTS (telecommunications), Zarubezhneft and Itera (hydrocarbons production), and KAMAZ (wholesale and retail trade and repairs). None of the other post-Soviet investors (primarily from Ukraine) have been able to clear the \$1 million thresholds.

2. Mutual Direct Investments in EAEU Member States

The deepening of regional integration offers new opportunities for corporate-level interaction between countries involved in integration projects. FDI statistics for 2016 testify to the fact that the EAEU is no exception to this rule. The MIM CIS database currently contains information on 240 mutual EAEU FDI projects with 2016 year-end capital investment stocks of at least \$1 million, as well as information on 56 terminated projects with FDI above that threshold during any year between 2008 and 2015 and more than 300 projects with relatively smaller investments.

2.1. Investments between EAEU Member States: Reasons for Rapid Growth

Intensification of investment ties within the EAEU has already become a major driver of mutual FDI expansion in the post-Soviet area. In 2016, mutual FDI by EAEU member states grew twice as fast as total mutual FDI stock accumulated in CIS countries and Georgia, increasing by 15.9% to \$26.8 billion (see Figure 7). EAEU member states accounted for 60.5% of \$34.8 billion of FDI exported to post-Soviet states by Russia, 83.6% of \$4.3 billion of FDI exports from Kazakhstan, and 97.7% of \$2.1 billion of FDI exports from Belarus. However, rather insignificant investments by Armenia and Kyrgyzstan went to their non-EAEU neighbors—Georgia and Uzbekistan, respectively. As for FDI imports from post-Soviet states, the share of EAEU member states in such imports to Kazakhstan, Belarus, and Kyrgyzstan exceeded 99%, while for Armenia and Russia it stood at more than 95% and 82%, respectively (see Table 4).

Russia is the only net exporter of mutual FDI originating from EAEU member states. This is largely attributable to the size of the Russian economy, which produces more than 85% of total EAEU GDP. Another factor is the earlier and more powerful foreign expansion of Russian TNCs. It is not incidental that, at the end of 2016, Russia's ratio of FDI stock exported to all countries of the world to the national GDP was 26.2%, compared to 15.5% in Kazakhstan, 5.3% in Armenia, 1.4% in Belarus, and 0.03% in Kyrgyzstan (UNCTAD, 2017, annex table 08).

In the sectoral structure of mutual FDI originating from EAEU member states, Oil and Gas (which accounts for more than 43% of such FDI stock) is the undisputed leader. These high figures are attributable primarily to capital investments by PJSC Gazprom's gas-transportation subsidiary in Belarus and PJSC LUKOIL's hydrocarbon-production projects in Kazakhstan. The principal difference between sectoral structures of mutual FDI in the entire post-Soviet area and in the EAEU is the much higher share, in the latter case, of FDI in Non-Ferrous Metals (mostly due to Russian capital investments in Kazakhstan and Armenia) and Chemicals (primarily due to an intensification of Russian-Belarusian counter-investments in 2016). Communication and IT FDI (spurred by Russian telecommunication companies that started

Figure 7. Outward FDI Stock of Russia, Kazakhstan, and Belarus in EAEU Countries in 2008–2016, \$ Billion

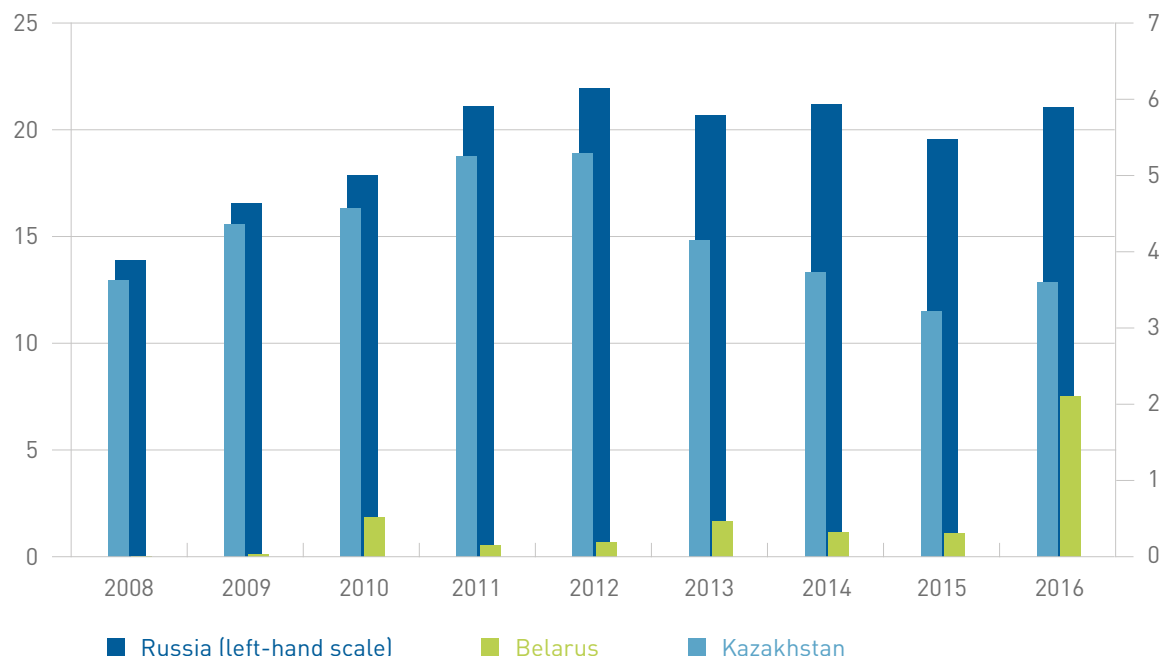


Table 4. Mutual Direct Investments by EAEU Member States at the End of 2016

Recipient Country	Investor Countries' FDI Stock, \$ Million					
	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan	All 5 Countries
Russia	X	2,948	2,054	8	0	5,010
Kazakhstan	8,212	X	34	0	0	8,246
Belarus	8,522	57	X	16	2	8,597
Armenia	3,441	0	0	X	0	3,441
Kyrgyzstan	858	605	3	0	X	1,466
All 5 Countries	21,033	3,610	2,091	24	2	26,760

their business internationalization with the neighboring countries) is in the third position, with a share comparable to that in mutual FDI within the CIS (9.6% vs. 9.8%). It is followed by Finance (due to the activity of Russian and Kazakh banks, which for the time being retain the status of regional TNCs). A substantial role is also played by FDI in Transportation (with investments in Russian airports by Kazakh Meridian Capital being the most notable example); Infrastructure Networks (mostly represented by capital investments by various Russian companies in Armenia's electric power industry); Agriculture and Food Products; Wholesale and Retail Trade; and Tourism (see Figure 8).

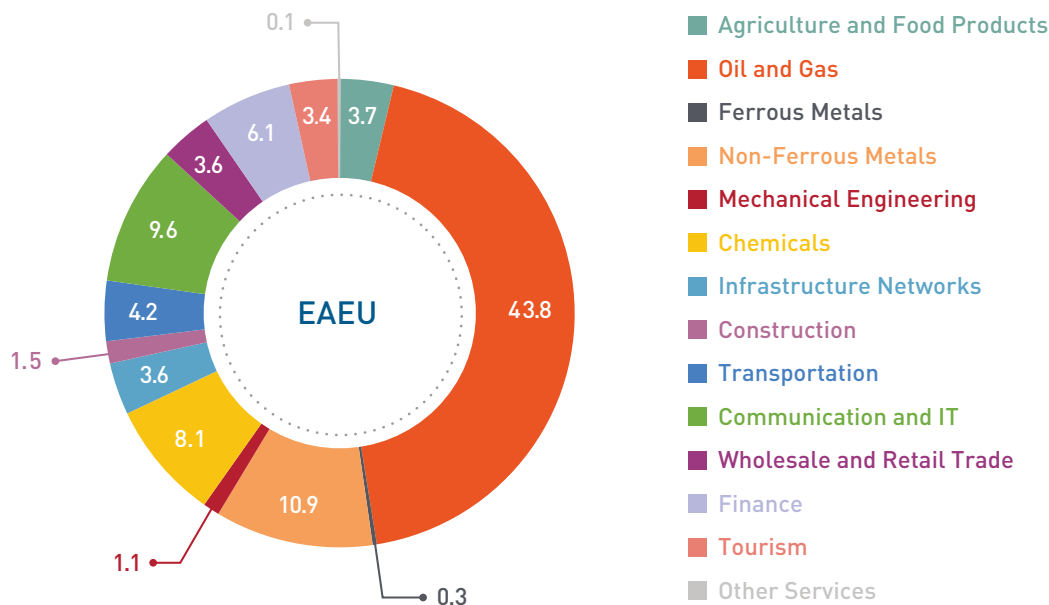


Figure 8. Sectoral Structure of EAEU Mutual FDI Stock at the End of 2016, %

Russian companies are the largest investors in EAEU member states. As in previous years, this region offers them, probably, the most comfortable conditions for foreign operations. The deepening formal integration, without a doubt, is a critical positive factor in addition to a common historical and economic past, territorial proximity, and linguistic affinity, which, in their totality, ensure a high level of awareness of the rules of doing business in the relevant countries. As a result, the sectoral structure of Russian FDI in EAEU member states (including investments in high-added-value facilities) is particularly diverse (Kuznetsov, 2014).

Last year, we wrote that, following the onset of the Ukrainian crisis, EAEU countries remain the preferred investment destination for many Russian companies that, at least for the time being, stop short of going beyond this area, with its pronounced “neighborhood effect” (EDB Centre for Integration Studies, 2016b). In this case, we are dealing with a considerable array of so-called “regional TNCs”—a term that can be applied to most “middle-range” Russian TNCs. For them, the existence of an integration project in the post-Soviet area is an important capital export “mobilization factor”, similar to incentives for the intertwining of capital in the EU by West European TNCs in the second half of the 20th century (Kuznetsov, 2012).

2.2. Belarus: Stable FDI Stock Levels

At the end of 2016, Belarusian inward FDI stock originating from other EAEU member states amounted to \$8.6 billion, with almost 71% attributable to Oil and Gas. Communication and IT, the fourth-largest sector in the EAEU, comes second in Belarus

with 10.4%. Finance also takes a large share of total FDI stock, while Mechanical Engineering, despite the ingrained stereotypes about Belarus, plays a relatively minor role (see Figure 9).

In terms of sectoral breakdown, investor preferences remain relatively stable. Only the Chemical sector underwent any meaningful change, with the Slavkali project advancing to the active implementation stage. The project envisages the construction of a mining and processing plant on the basis of the Starobin potassium salt deposit. M. Gutseriyev, one of the participants in the project, has already invested about \$90 million. Continued implementation of this large-scale project will critically affect FDI flows in Belarus.

Belarusian leadership in the EAEU, as the top recipient of mutual FDI within this integration association, should not give rise to excessive illusions. In 2016, the adverse economic situation in Belarus, alongside other investment disincentives (an extensive public sector; economic and social policy priorities; lack of rich natural resources; a relatively undiversified economy), which for many years have been affecting the investment climate in the country, put a virtual freeze on FDI inflows. Material objective limitations of the Belarusian economy prevent it from fundamentally changing its status as an FDI recipient within the CIS. It should be noted, however, that according to some ratings, Belarus has lately become an increasingly attractive investment target. For example, according to the World Bank's *Doing Business*, Belarus has only improved its positions over the last several years: in 2016, the country went up several notches to take the 37th place on the global scorecard (World Bank Group, 2016). In any case, investment opportunities (which Belarus undoubtedly offers) for the time being continue to have a less pronounced effect on the country's position in investment flows within the CIS than the existing limitations have.

In 2016, the largest increase of investments in Belarus (in relative terms) was posted by Armenia (45.5%, due to the low base effect). The largest increase of FDI in Belarus among CIS countries (in absolute terms) was recorded by Russia (\$133 million or 1.6%). However, this statement should be qualified to account for the uncertainty with respect to the exact amount of Gazprom FDI in Belarus.

No other EAEU member state or CIS country, with the exception of Russia, can yet be said to have any significant influence on FDI in Belarus. Long-term dependence on Russian investment capital persists: in 2016, the share of Russian investments in total post-Soviet FDI amounted to 98.7%. Investments in Belarus by other EAEU member states are represented by one-off projects with minuscule FDI amounts, with the exception of Kazakhstan, whose companies have invested more than \$50 million in the Belarusian economy. Interestingly, projects initiated by investors from other former Soviet Union republics (Ukraine and Georgia) often involve much larger amounts than projects initiated by investors from the "smaller" EAEU member states, such as Armenia or Kyrgyzstan.

In 2016, Belarus was not immune to the loss of investors. The process affected mostly its Russian counterparties. For example, Ritzio International closed its gambling clubs network, and M. Rabinovich lost his assets in Osipovich Railway Car Building Plant.

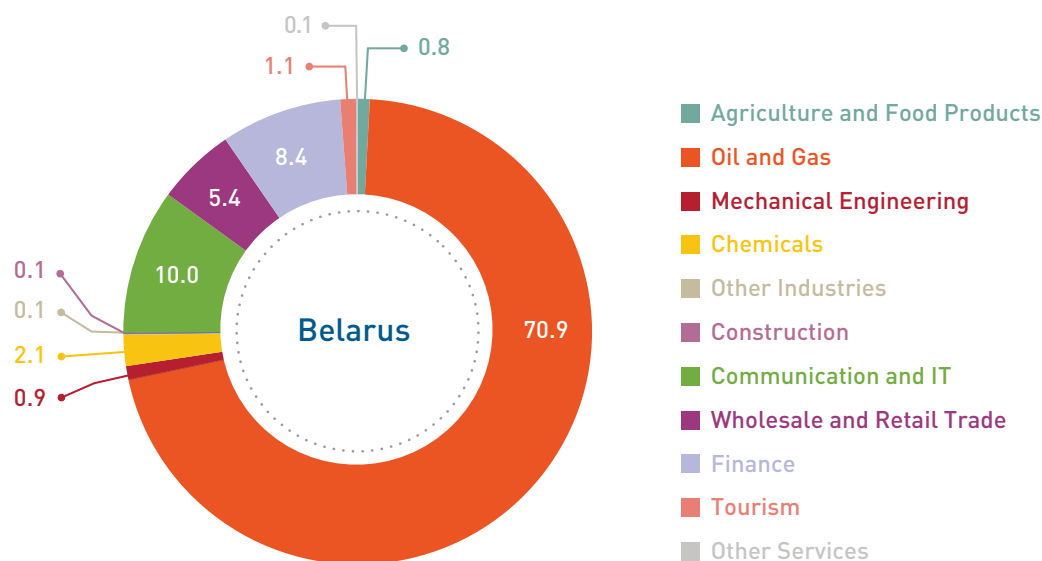


Figure 9.
Sectoral Structure
of Belarusian Inward
FDI Stock Originating
from EAEU Member
States at the End
of 2016, %

However, the number of investment projects closed in Belarus remained basically at the same level as in previous years and did not have any drastic effect on FDI inflows.

Developments in 2016 lead us to the conclusion that, within the EAEU and the CIS, Belarus retains its investment appeal only for Russian investors, and its dependence on Russian investment capital is quite strong and likely to endure for years to come. As for investment interactions with the other EAEU member states, at this point in time, they have to be classified as future opportunities.

The year 2016 changed the status of Belarus as an investor in the CIS: as shown in Section 1.1, its FDI stock increased more than six-fold to exceed \$2 billion. All adverse influences, including excessive red tape in investment decision-making, public sector prevalence, etc., which have for many years undermined the stability of Belarus as an investor in the CIS, have been set off by a single factor—the fact that Belarus has started to have entrepreneurial entities linked to Russia’s largest business groups, among other things.

As a result, the largest relative increase of the amount invested (almost eight-fold) was recorded for Russia. Russia also holds the record for an absolute increase: the value of Belarusian investments has increased by more than \$1.7 billion. Such a drastic change of FDI flows from Belarus arose following the purchase, by entities linked to Belarusian businessman D. Lobyak, of a 20% stake in Uralkali, a major producer of potassium fertilizers. The seller was Onexim Group, owned by M. Prokhorov. The deal became one of the largest Belarusian direct investments for many years. It should be noted, however, that this transaction will hardly make the investment position of Belarus any more stable. Even though D. Lobyak has become a member of the Uralkali board of directors, the long-term nature of his investment interests remains in doubt: Lobyak is not among the rather small number of super-rich Belarusians.

Besides, the media link him to D. Mazepin, the owner of the other Russian fertilizer producer, Uralchem. If the 20% stake in Uralkali was, in fact, purchased for Mazepin, Belarusian traces are soon likely to evaporate from Uralkali capital, to be replaced by a Russian or an offshore entity, which will push Belarus back to its “traditional” positions in the CIS direct investment rating.

Excluding the massive purchase of Uralkali shares, in 2016 Belarusian capital remained well within the trend that had shaped up over the last several years. Mechanical Engineering, Transportation, and Oil and Gas remained the key investment targets. High inflation, lack of economic growth, and other problems that keep plaguing the country’s economy kept additional investments in ongoing projects outside Belarus at a minimum. Territorially, most investments went to Russia, Kazakhstan, and Ukraine (which is not an EAEU member state), i.e., to the largest economies in the CIS, which offer a diverse range of applications for Belarusian capital. New projects were limited in terms of both amounts invested (not more than \$10 million) and target territories (most investments were directed to Russia, Moldova, and Tajikistan; Tajikistan is a relatively new destination for Belarusian capital). Yet, despite the difficult economic situation, no significant closure of existing Belarusian projects was noted in 2016.

The 2016 results prove yet again that the EAEU has not yet become the ultimate destination for Belarusian direct investors: Belarusian capital is directed to all EAEU member states, but the amount of those capital infusions is comparable to, and occasionally lower than, the amount of investments in the other CIS countries. For example, investments in Moldova are several times larger than investments in Kyrgyzstan or Armenia—the “neighborhood effect” continues to play the prevailing role.

One distinctive feature of Belarusian direct investments deserves special mention: commodity-distribution networks (CDNs). CDNs remain a rather “fluid” phenomenon: some of them have been liquidated in recent years, including in 2016, while others continue to crop up. The most CDN transformations have been recorded in Russia, Kazakhstan, and Ukraine. Expansion of CDNs is not a harbinger of future massive investments; instead, they represent an auxiliary tool designed to boost Belarusian investment capacity and remain one of the characteristics of this country.

Existing trends and events in 2016 lead us to the conclusion that the position of Belarus as a direct investor in the EAEU and the CIS has generally improved but continues to depend on a single project. The importance of the Russian economy for Belarusian capital is growing (even if we disregard the purchase of Uralkali shares), and this state of affairs will persist in the foreseeable future. For the time being, there is no reason to assert that Belarus has established a full-fledged investment cooperation within the framework of the EAEU—this remains in the realm of future opportunities.

2.3. Kazakhstan: First Signs of FDI Recovery

In 2016, Kazakhstan demonstrated a recovery of FDI growth compared to the generally stable Belarusian FDI stock. However, in neither case should one jump to conclusions regarding the positive or negative impact of regional integration—all changes fit within the margin of error related to FDI stock measurement assumptions or its revaluation to account for the operation of various macroeconomic factors.

As for the structure of FDI originating from EAEU member states and accumulated in Kazakhstan, it can be deemed identical to the structure of Russian FDI in that country. The only significant non-Russian project is LLP KazBelAZ, a Karaganda Region-based heavy truck assembly JV with Belarus (it was a greenfield project of 2009; the assembly plant went online in the spring of 2015).

In Kazakhstan, as in Belarus, Oil and Gas is the key recipient sector for FDI originating from the country's EAEU partners (essentially, from Russia). However, in the case of Kazakhstan we are dealing primarily with the production of crude oil and natural gas and, to a lesser extent, coal (Russian aluminum-giant RUSAL owns a 50% stake in LLP Bogatyr Komir), even though Gazprom has a number of ongoing gas-transportation and -sale projects.

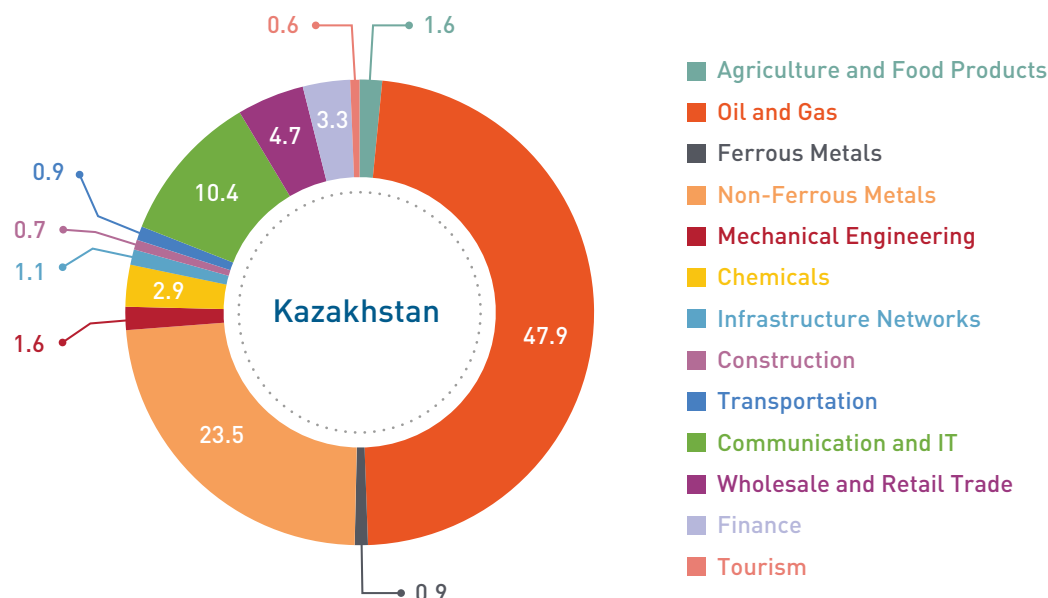
The second position is occupied by Non-Ferrous Metals (see Figure 10). The most notable projects are those related to mining and enrichment of uranium ore by the Russian company Atomenergoprom (part of Rosatom Concern). We can also note gold-mining and -beneficiation projects (primarily those implemented by Polymetal). There are also investments in copper- and zinc-mining projects. In 2016, individual projects demonstrated divergent FDI stock movement, which is likely to be attributable exclusively to the financial position of the relevant investor companies and related projects.

Communication and IT has attracted into Kazakhstan the third-largest amount of FDI originating from EAEU member states, with VimpelCom asset-revaluation becoming the main source of the accretion of Kazakh FDI originating from Russia in 2016 (see Figure 10).

Another example of the significant increase of Kazakh FDI originating from Russia in 2016 is the contribution by EuroChem to the capital of LLP EuroChem Fertilizers (Zhambyl Region), a JV for the production of fertilizers. The company was established in 2008, but because of a prolonged business dispute, the actual inflow of investment capital commenced only in late 2012.

Nevertheless, in terms of FDI amounts, the Chemical sector is still ahead of Wholesale and Retail Trade and Finance. The amount of FDI channeled by PJSC Sberbank to its Kazakh subsidiary is still a little lower than the contribution to its Belarusian subsidiary (but higher than the contribution to the subsidiary operating in Ukraine, which is engulfed in a political and economic crisis). Conversely, VTB Group (which has reported the second-largest amount of FDI in Kazakhstan after Sberbank) has different EAEU investing preferences, putting Kazakhstan in the top position above Belarus (also above Armenia, above Georgia and Azerbaijan—neither of which is an EAEU member state—but below Ukraine).

Figure 10. Sectoral Structure of Kazakh Inward FDI Stock Originating from EAEU Member States at the End of 2016, %



2.4. Russia: Reasons for Its Attractiveness to EAEU Investors

The sectoral structure of Russian inward FDI stock originating from EAEU member states is fundamentally different from the distribution of FDI from those countries to other member states of that union, which is logical because in this case Russian TNC preferences are taken out of the equation (see Figure 11). It should be noted, though, that the structure of Armenian and Kyrgyz inward FDI stock originating from EAEU member states is also atypical (for more details, see Section 2.5).

At the end of 2016, Russia's Chemical sector came out on top (for more details, see the account of Belarusian FDI in Russia in Section 2.2). In 2011–2014, the leading positions in this sector were held by a Kazakh project (investments in the Russian chemical industry), with entities owned by businessman I. Shkolnik, which hold, via an offshore company, the controlling stake in Orsknefteorgsintez (now, this oil refinery has been bought back by the Russian entrepreneur M. Gutseriyev).

The Russian Agriculture and Food Products sector has attracted the second-largest amount of FDI from EAEU member states. The list is topped by the 20% stake in the dairy company Unimilk (currently, Danone) owned by the Kazakh group Meridian Capital (before the merger with Danone, this investor held a 40% stake). Another notable example is the Kazakh crop-farming company Ivolga-Holding, but it has downsized its Russian operations due to financial problems caused by, among other things, several years of crop failure back home. Several major investors from Kazakhstan, Belarus, and Armenia also continue to maintain their presence in Russia.

The third-largest FDI stock was recorded for Transportation. The highest investment growth rates have been posted by the Kazakh multi-sectoral group Meridian Capital,

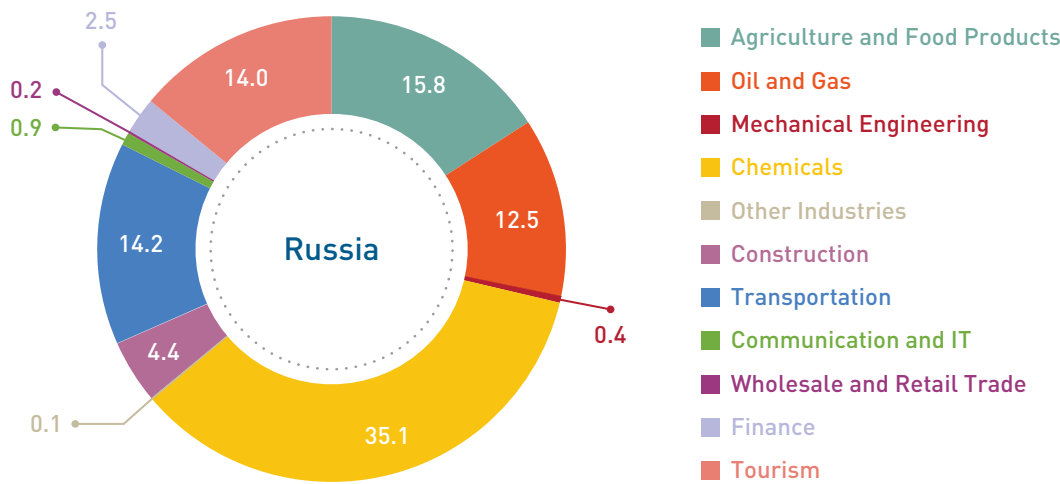


Figure 11. Sectoral Structure of Russian Inward FDI Stock Originating from EAEU Member States at the End of 2016, %

which in 2012 purchased a 50% stake in the Russian firm Novaport. Over the last several years, the company has been rapidly building up its asset base in regional airports. A large-scale project is under way at Novosibirsk Tolmachevo Airport (at the end of 2016, we estimated the Kazakh share in total investments at \$282 million). Other notable FDI projects include investments in the airports of Chelyabinsk and Tomsk, and those of Mineralnye Vody and Khrabrovo (Kaliningrad Region), both purchased in 2016. The amount invested in each project exceeded \$80 million. Meridian Capital, operating through Novaport, is currently controlling a total of 13 Russian airports, with stakes in 5 airports acquired in 2015–2016. Conversely, Kazakh investments in Russian warehouses and logistical facilities have petered out (the last major assets owned by Eurasia Logistic were sold off in 2013), while Belarus still maintains a significant FDI presence in this sector.

The fourth position goes to Tourism (almost exclusively due to Ritz-Carlton Hotel and Metropolis Trade and Entertainment Complex (Stage 2) in Moscow, both owned by Kazakh investors). Oil and Gas was only in the fifth position, followed, with a large gap, by Finance.

Russia is, quite naturally, one of the key centers of attraction for post-Soviet FDI due to the “neighborhood effect” and the linguistic, cultural, and historical proximity. It is no coincidence that Belarusian, Kazakh, and Armenian investors had maintained business ties with their Russian partners long before making FDI in Russia. Besides, Russia has a rather diversified economic structure and a capacious market that encourages business expansion by EAEU entrepreneurs. Finally, Russia has a huge real estate market with tremendous investor appeal. Accordingly, many of the FDI projects that we assigned to other branches are related, in one way or another, to capital investments in real properties, such as hotels (Tourism), airport complexes (Transportation), and land (Agriculture and Food Products).

2.5. Armenia and Kyrgyzstan: Record-Breaking FDI Indicators

The current position of Armenia with respect to FDI flows is rather unstable. The country keeps going up and down in investment attractiveness ratings, and in recent years foreign investment flows have demonstrated a downward trend. Within the CIS, however, 2016 ended on a positive note: total Armenian inward FDI stock increased by 9.9% to more than \$3.6 billion, of which \$3.44 billion came from EAEU member states.

Russia has played the key role in boosting FDI inflow to Armenia, assuring maximum growth both in absolute terms (more than \$0.3 billion) and in relative terms (10.7%). As for many other CIS countries, Russia is Armenia's key investor. By the end of 2016, its influence increased even further, with the share of Russian investments in total post-Soviet FDI exceeding 95%, up to almost 100% for FDI originating from the EAEU. However, in addition to the traditional objective economic factors that influence Russia's significantly increased role, Armenia has an additional distinctive factor: numerous ethnic Armenians who have become Russian citizens and continue to invest into their original home country. In many cases, such investments have gone into Finance.

In terms of sectoral makeup, in 2016 investors habitually reproduced the conventional structure of investment preferences shaped by the prevalent position of the Russian public sector. Capital investments were directed to the traditional sectors of the Armenian economy, including Infrastructure Networks, Non-Ferrous Metals, Oil and Gas, Communication and IT, and Transportation (see Figure 12).

Russian influence in the CIS, within the framework of Armenia-bound FDI flows, remains quite stable. A withdrawal of Russian players is often offset by an arrival of other players who are also formally Russian. In particular, the sale of RasTES and Power Networks of Armenia was finally closed in 2016, with the assets transferred from Inter RAO to S. Karapetyan's Tashir Group, which has interests in construction, the electric power industry, the financial sector, and several other sectors of the Russian economy. When sanctions were imposed on Gazprombank, it sold its Armenian asset (Areximbank) to Ardshinbank, which also has a Russian owner. The assumption regarding the stability of Russian positions is borne out by the fact that Russian companies are among the few CIS investors capable of heavily investing into new projects in the current Armenian investment environment. In particular, Polymetal continues to expand its footprint in the country: in 2016, the company purchased the Kapan gold mine, together with its existing mining and beneficiation plant, intending to merge it with its other Armenian asset, the Lichkvaz deposit. By the end of 2016, however, it became clear that even Russian investors were not eager to engage in any meaningful investment activity, with many projects funded at the level of the previous year due to economic problems emerging both in Russia and in Armenia.

Beside Russia, companies from Georgia and Ukraine, neither of which is an EAEU member state, are investing in projects in Armenia. The presence of Belarusian capital is insignificant and mostly restricted to trade. In 2016, Kazakhstan all but ceased to be a major investor in the Armenian economy, closing BTA Investbank, which had

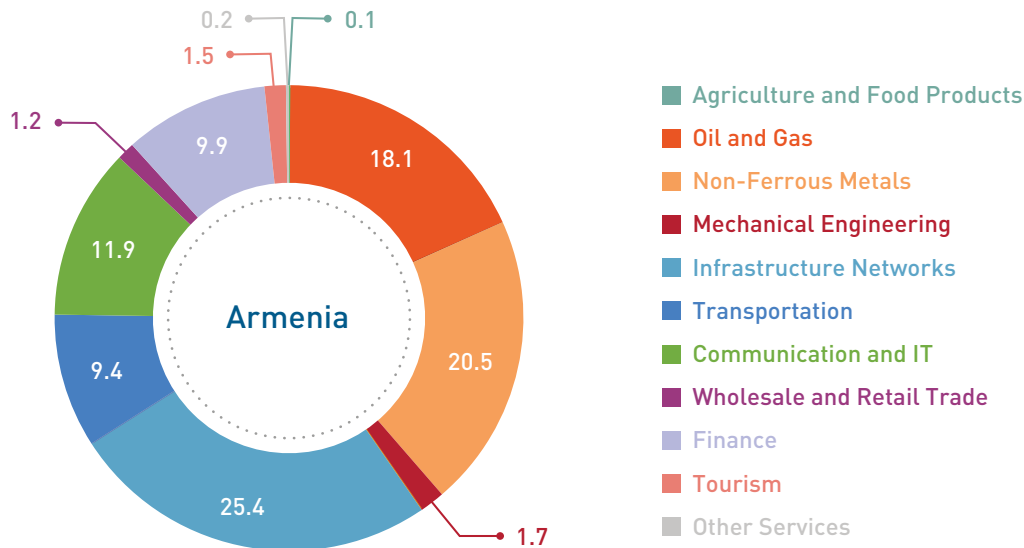


Figure 12.
Sectoral Structure
of Armenian Inward
FDI Stock Originating
from EAEU Member
States at the End
of 2016, %

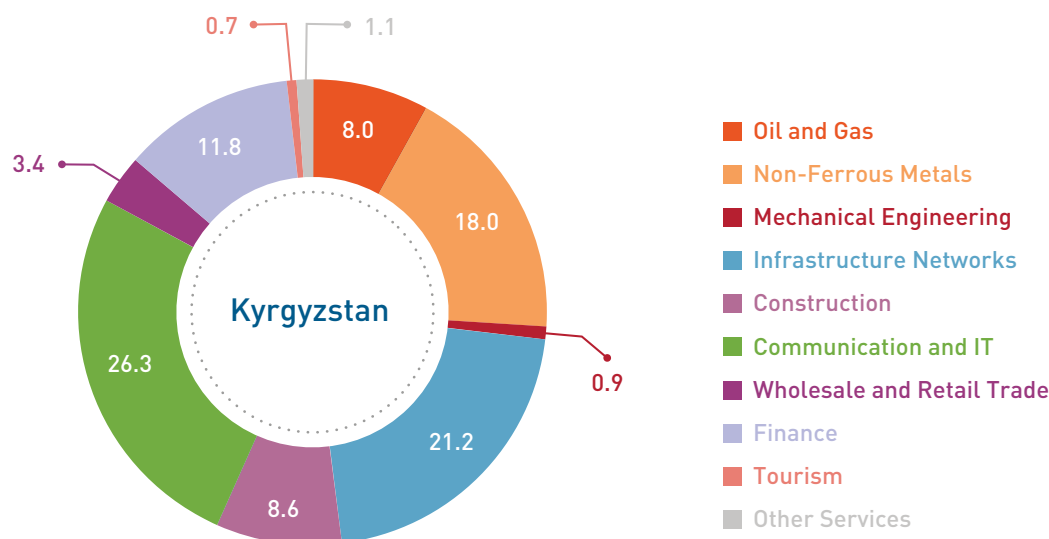
worked in Armenia for more than 10 years. The asset was sold to Armenian businessmen (Armeconombank). Armenia's EAEU membership has not yet yielded any palpable investment benefits, with involvement of the other members of the union remaining minimal. Like its other foreign economic pursuits, Armenian investment activities continue to be dominated by the factor of territorial proximity.

The trends currently shaping FDI flows to Armenia within the CIS indicate that the Russian dominance, based on both objective factors (investment environment) and subjective factors (Armenian diaspora), will persist in the future. However, adverse economic developments in Armenia over the last several years will deter investors from the other CIS countries.

The investment potential of Armenian investors is quite limited, even within the CIS. The level of development and structure of the Armenian economy, which is dominated by Agriculture and Food Products; the absence of a sizeable sector of large corporations; the devaluation of the Armenian dram; and a number of other factors produce the combined effect of enervating the country's foreign investment capacity. The government is also playing a role, promoting a program designed to boost domestic investment activity. As a result, Armenian outward FDI stock in the CIS amounts to only about \$50 million and is represented mostly by small projects. By the end of 2016, Armenian FDI increased by about 16%. The maximum growth rate (in relative terms) was demonstrated by Belarus. As before, Agriculture and Food Products remained the main recipient of Armenian investments (more than 50%). Other target sectors included Finance, Chemicals, and Tourism.

The geographical structure of FDI flows from Armenia remains relatively stable, with Georgia, Belarus, Russia, and Ukraine being the main recipient countries.

Figure 13. Sectoral Structure of Kyrgyz Inward FDI Stock Originating from EAEU Member States at the End of 2016, %



During the two years of Armenia’s membership in the EAEU, the relative significance of its union partners has increased, but this nascent trend has not yet become dominant: Russia and Belarus accumulate only about 47% of Armenian FDI within the CIS. Meanwhile, the “neighborhood effect” continues to play the key role, with Georgia getting as much Armenian direct investment as the entire EAEU.

The year 2016 was a period of “stability” for Armenian FDI: investors did not start any new major projects, nor did they close any earlier projects, keeping new funding at a minimum. This trend and existing objective factors indicate that Armenia will continue to play an insignificant role in FDI flows within the CIS and the EAEU despite all the efforts undertaken by its government.

Kyrgyzstan acceded to the EAEU in the summer of 2015. The first full post-accession year has produced a 21.3% increase of FDI inflow from Russia. However, total 2016 increase of FDI stock originating from EAEU member states was merely 11%, due to a slight reduction of FDI from Kazakhstan.

In terms of sectoral preferences, Kyrgyz FDI is dominated by Communication and IT, Infrastructure Networks, and Non-Ferrous Metals (see Figure 13). Notably, Communication and IT projects are represented by Russian (VimpelCom) and Kazakh (Verny Capital) investments in the same company, Sky Mobile.

Compared to the early 2010s, there has been a considerable increase of FDI by EAEU member states in Finance, with the bulk of investment capital provided by Kazakh banks (with ATFBank in the lead) and Russian banks (even though no Russian market leaders have come to Kyrgyzstan).

On the whole, the position of Kyrgyzstan at the bottom of the list of recipients of FDI originating from the EAEU is fully justified, considering the relatively modest economic

potential of the country and the political turmoil that has afflicted it throughout the 2000s. It is possible that membership in the EAEU will help Kyrgyzstan to improve its investment image. Besides, harmonization of rules and regulations within the framework of the integration project will enable Kyrgyzstan to “upgrade” with the other EAEU member states in terms of improving the objective factors shaping the overall investment climate.

Conclusion

The MIM CIS project has two highly pronounced components: statistical and analytical. Lately, mutual investment processes in CIS countries have been rather sluggish, slowing down the growth of the MIM CIS database. At the same time, with new sources of information about corporate operations (including public sources, especially in Russia) emerging almost daily, we are able to adjust available data and obtain, more promptly than before, reliable information on new projects.

In addition, the interface between MIM CIS and DIM-Eurasia offers a much broader scope of analysis, as EAEU-related matters are best regarded in the more general context of Eurasian integration initiatives. We would also like to stress that in 2017 we have already begun to receive information on all major Asian investors operating in the post-Soviet area.

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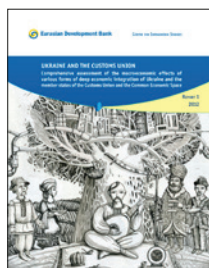
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Report 1 (RU / EN)

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.



Report 2 (RU / EN)

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

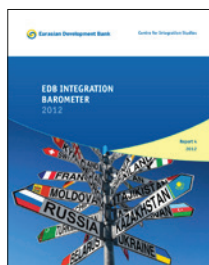
This report, published under auspices of the EDB Centre for Integration Studies, summarizes both international studies in the area of regional integration within the former Soviet Union and Russian language materials on this issue, reviewing the research papers and publications in the area of economics,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



Report 3 (RU)

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.



Report 4 (RU / EN)

EDB Integration Barometer - 2012

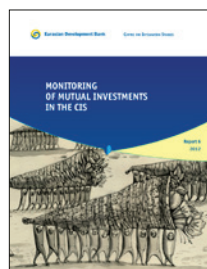
The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.



Report 5 (RU)

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.



Report 6 (RU / EN)

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.



Report 7 (RU)

Customs Union and Cross-Border Cooperation between Kazakhstan and Russia

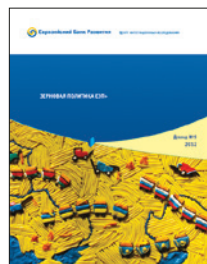
Research on the economic effects of the development of industrial relations under the influence of the Customs Union in the border regions of Russia and Kazakhstan.



Report 8 (RU)

Unified Trade Policy and Addressing the Modernization Challenges of the SES

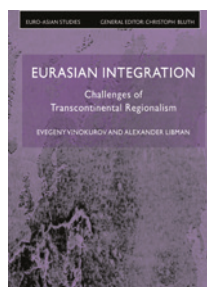
The report presents an analysis of the key economic risks arising under the agreement by SES participants of a foreign trade policy, formulates proposals on the main thrusts of SES Common Trade Policy, and names measures for its reconciled implementation.



Report 9 (RU)

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.

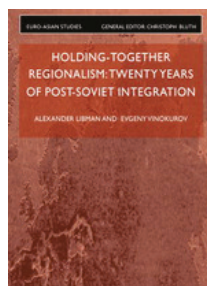


Eurasian Integration: Challenges of Transcontinental Regionalism (EN)

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



Holding-Together Regionalism: Twenty Years of Post-Soviet Integration (EN)

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.



Eurasian Continental Integration (RU)

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.



Report 16 (RU / EN)

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.

2013



Report 10 (RU)

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.



Report 17 (RU)

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.



Report 11 (RU)

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.



Report 18 (RU / EN)

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.



Report 13 (RU)

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.



Report 19 (RU / EN)

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

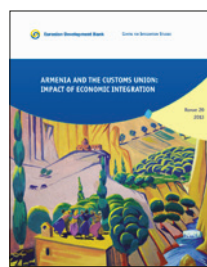
The Eurasia FDI Monitoring project supplements another research by the EDB Centre for Integration Studies—Monitoring of Mutual Foreign Investment in the CIS countries (CIS Mutual Investment Monitoring).



Report 14 (RU)

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

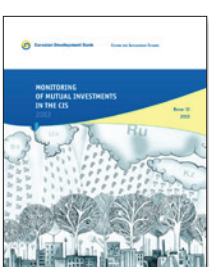
Tajikistan's accession to the CU and the SES will have a positive economic impact on the country's economy. The report includes a detailed economic analysis of the issue using various economic models and research methods.



Report 20 (RU / EN)

Armenia and the Customs Union: Impact of Economic Integration

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



Report 15 (RU / EN)

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.



System of Indicators of Eurasian Integration (RU / EN)

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.



Report 23 (RU / EN)

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

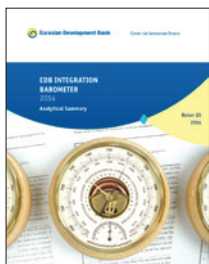
The objective of the project is to discuss and analyse economic integration in Eurasia, both on the continental scale "from Lisbon to Shanghai", and in the EU-EEU dimension "from Lisbon to Vladivostok".



Report 24 (RU)

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.



Report 25 (RU / EN)

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.



Report 26 (RU / EN)

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.



Report 27 (RU / EN)

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.



Report 28 (RU / EN)

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.

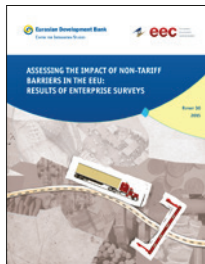
2015



Report 29 (RU / EN)

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.



Report 30 (RU / EN)

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

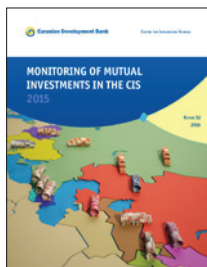
A large-scale poll of 530 enterprises in Belarus, Kazakhstan and Russia suggests that non-tariff barriers account 15% to 30% of the value of exports. Belarusian exporters estimate non-tariff barriers in their trade with Russia and Kazakhstan at 15% of the value of their exports, Kazakh exporters at 16%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



Report 31 (RU)

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

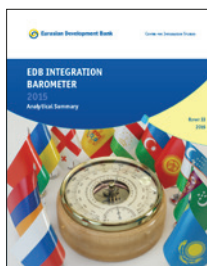
Current research deals with the analysis of migration flow, labour potential in Central Asia (the examples of Kyrgyzstan and Tajikistan are taken). The focus is made on the possibilities of both countries to reorient their economies from export of labour to export of labour-intensive goods and services.



Report 32 (RU / EN)

Monitoring of Mutual Investments in CIS Countries - 2015

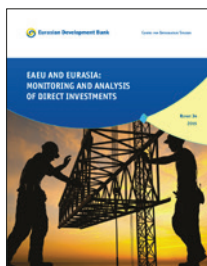
According to the sixth report of a years-long research project in 2014 the fall in mutual foreign direct investments (FDI) between the CIS countries was \$6.3 billion, or 12% year-on-year. One of the main causes for this drastic decline in all mutual FDI in the CIS was the destabilised economic and political 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.



Report 33 (RU / EN)

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.



Report 34 (RU / EN)

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.



Report 36 (RU / EN)

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*.



Report 37 (RU)

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.



Report 38 (RU / EN)

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”.

2016



Report 35 (RU / EN)

Forecasting System for the Eurasian Economic Union

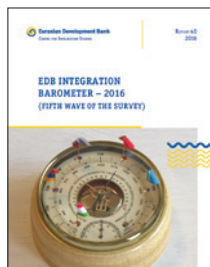
Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank. This work builds upon the findings of the joint research undertaken by the Eurasian Development Bank (EDB) and the Eurasian Economic Commission (EEC) to create a system capable of generating economic forecasts for EAEU 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.



Report 39 (RU / EN)

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.



Report 40 (RU / EN)

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".



Report 44 (RU)

Exchange Rate Fluctuations within the EAEU in 2014–2015: Analysis and Recommendations

The report analyses the effects of the shock of commodity price drop and monetary policy measures implemented by the EAEU member states in 2014–2015 to stabilise their economies. The authors argue that those were exactly the different monetary policy approaches, applied by the EAEU member states in 2014–2015, that resulted in sharp fluctuations of mutual exchange rates, aggravating the economic crisis with problems in mutual trade that could have been avoided.



Report 41 (RU / EN)

EAEU and Eurasia: Monitoring and Analysis of Direct Investments – 2016

The report presents new results of the permanent research project dedicated to monitoring of direct investments in Eurasia. It focuses on investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments made by Austria, the Netherlands, Turkey, the United Arab Emirates, Iran, India, Singapore, Vietnam, China, the Republic of Korea, and Japan in the eight CIS countries listed above.

2017



Report 42 (RU / EN)

Monetary Policy of EAEU Member States: Current Status and Coordination Prospects

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank
Eurasian Development Bank's Centre for Integration Studies and the Macroeconomic Policy Department of the Eurasian Economic Commission (EEC) conducted a research titled Monetary Policy of EAEU Member States: Current Status and Coordination Prospects. The main objective was to analyse monetary policies in the EAEU countries since the Treaty on the Eurasian Economic Union provides for deeper economic integration, including in the form of coordinated macroeconomic and foreign exchange policies. The report based on the results of the research considers the following issues: the ongoing foreign exchange and monetary policies; the effectiveness of drivers used by regulators to influence the economy; barriers to the efficient coordination of monetary policies within the union; and possible common objectives and tasks solved by central (national) banks.



Report 43 (RU / EN)

Eurasian Economic Integration – 2017

The report reflects the directions, events, and decisions that determine the current vectors of the integration processes in the Eurasian Economic Union. The authors offer fresh data and analytical insights with respect to macroeconomic development; changes in trade and investment capital flows; the labor market; and progress in non-tariff barriers elimination.



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, the 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 six years, the 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 45 reports and prepared more than 50 notes and briefs for Presidential Executive Offices, Ministries of EDB member states, and the Eurasian Economic Commission.

More detailed information about the 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:
<https://eabr.org/en/analytics/integration-research/about-cii/>.

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ISBN: 978-5-906157-38-6



MONITORING OF MUTUAL INVESTMENTS IN CIS COUNTRIES 2017

The report contains detailed information on the scope, dynamics, geographical structure, and sectoral structure of mutual investments in CIS countries and Georgia as of the end of 2016. Special attention is paid to mutual direct investments by companies from Eurasian Economic Union member states, with special emphasis on their dual role as exporters of capital and as recipients of direct investments made by companies from other post-Soviet states.

An electronic version of the report is available on the Eurasian Development Bank's website at: <https://eabr.org/en/analytics/integration-research/cii-reports/>.

**Saint Petersburg
2017**