



Eurasian Development Bank

EDB Monitoring of Mutual Investments

Reports and Working Papers 21/4



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21/4



EDB Centre for
Integration Studies

Moscow
2021

Kuznetsov, A. and Vinokurov, E. (Eds) (2021) *EDB Monitoring of Mutual Investments*. Report 21/4. Moscow: Eurasian Development Bank.

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The report continues the series of publications detailing the findings of a long-standing research project dedicated to monitoring of mutual direct investments of the 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”, meaning that its main sources are corporate statements and other primary information. The project makes it possible to take into consideration investments made through offshore structures and other “trans-shipping destinations”, as well as reinvested foreign profits. The report contains detailed information on the scope, development, geographical, and sectoral structure of mutual investments of the CIS countries and Georgia in 2016–2020. Special attention is paid to a review of mutual direct investments by companies from the Eurasian Economic Union member states, with special emphasis on their dual role as exporters of capital and as recipients of direct investments by companies from other post-Soviet states.

Keywords: direct foreign investments, mutual investments, investment stock, capital flows, investment deals, EAEU, Eurasian Economic Union, Eurasian integration, transnational corporations, FDI structure.

JEL: F15, F21, F23, E22, H54.

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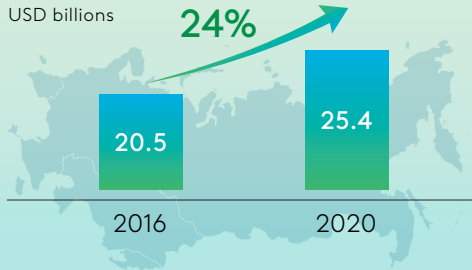
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EDB Monitoring of Mutual Investments

Detailed information on the scope, development, geographical and sectoral structure of mutual direct investments of the CIS member states and Georgia

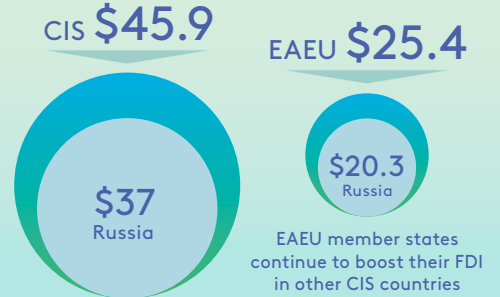
Mutual FDI stock of the EAEU member states



Share of national private companies: **55%**

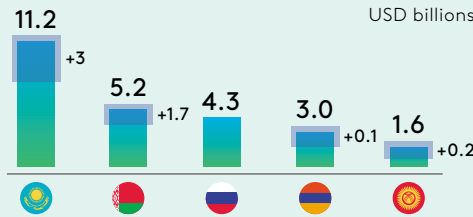
Share of Russian FDI in the CIS and the EAEU: **80%**;
Russia is the **only country with a positive net balance of outward FDI**

Mutual FDI stock in 2020, USD billions

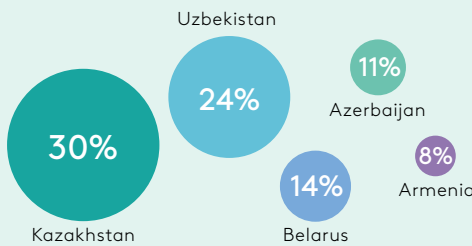


FDI RECIPIENT COUNTRIES

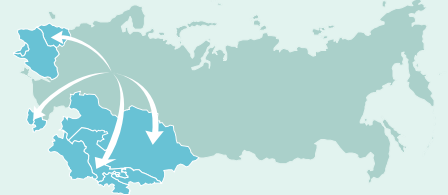
Inward FDI stock originating from the EAEU member states in 2020 and its increase vs. 2016



Key recipients of Russian FDI in 2020

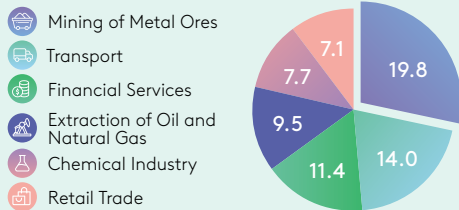


Over the last four years, Russian **outward** FDI stock in the CIS countries and the EAEU member states has increased **by 1.3 times**, Russian **outward** FDI stock in **Uzbekistan by 2.1 times**

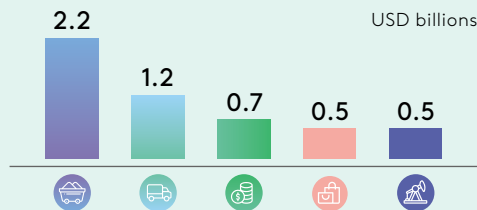


RECIPIENT SECTORS OF MUTUAL FDI OF THE EAEU MEMBER COUNTRIES

Sectoral structure of mutual EAEU FDI stock, 2020, % (main sectors)



Sectors acting as growth drivers, increase vs. 2016



Over the last three years, mutual FDI stock of the EAEU member states and Uzbekistan in **Manufacture of Motor Vehicles, Machines and Electrical Equipment** has doubled



INVESTORS IN THE EAEU MEMBER STATES

Seven companies account for **45% of total mutual FDI in the EAEU** with a combined stock of more than USD 1 billion

Over the last four years, the number of projects with values of **up to USD 5 million has increased by 11%**, with FDI increased **by 16%**

Projects with values of up to **USD 300 million** account for **90%** of all projects, and cover **38 sectors** of the mutual FDI of the EAEU member countries

MEDIUM-TERM EXPECTATIONS

Diversification of the sectoral structure of mutual FDI of the EAEU member states:
Manufacture of Motor Vehicles, Machines, Electrical Equipment, Renewable Energy Sources

Acceleration of the growth of mutual FDI of the EAEU member states and Uzbekistan in the following sectors:
Chemical Industry, Extraction of Oil and Natural Gas, Telecommunications, Manufacture of Machines and Equipment

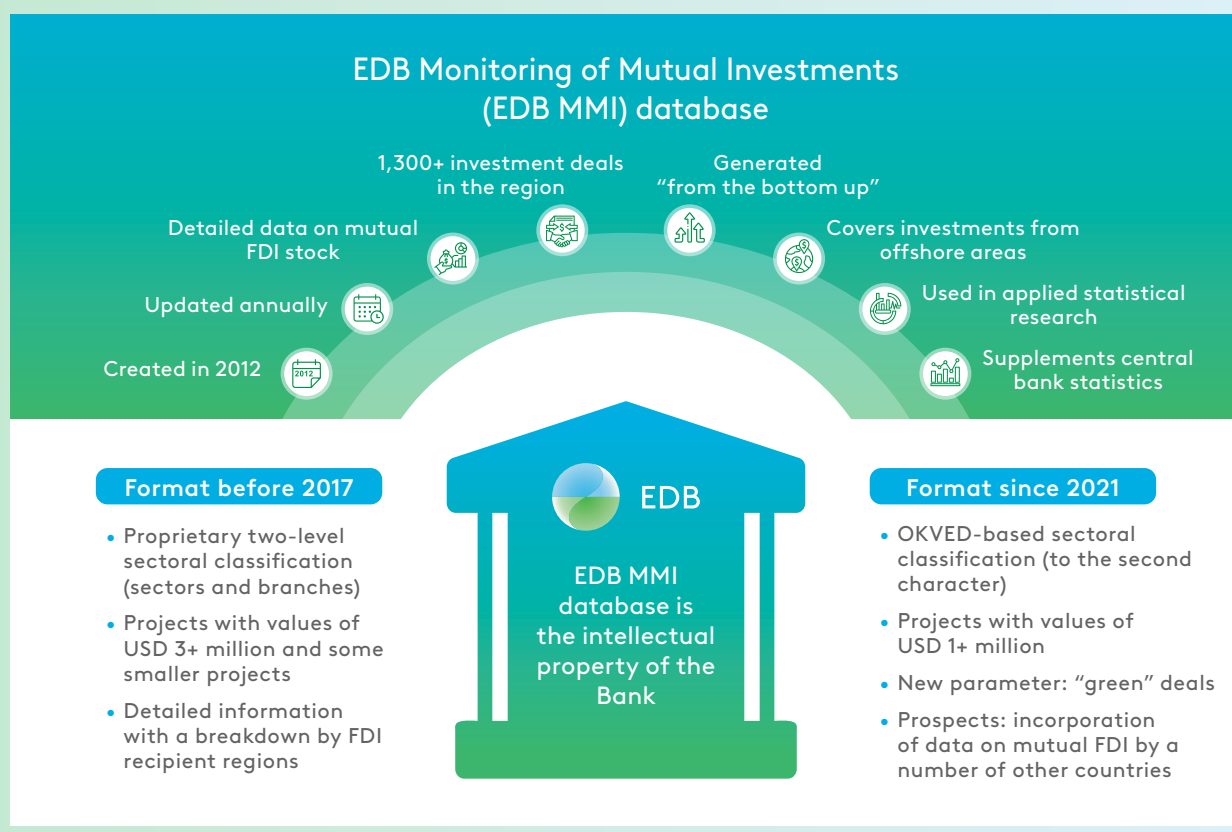
Increased number and value of FDI in greenfield projects and medium-sized business projects

SUMMARY

The EDB Monitoring of Mutual Investments (EDB MMI) database 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 the CIS countries and Georgia.

The monitoring has been conducted since 2012 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 EDB MMI makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations”. In this respect, the project’s database is different from official statistics. The EDB MMI features data that are critical for successful, comprehensive analyses of investment projects: investor country, recipient sector, 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 2008–2020, and sources of information.

The applied nature of the database makes it relevant both for researchers and for government bodies of the EDB member states which seek to obtain supplementary direct investment information and analyses. The EDB MMI is a valuable complement to official statistics on direct capital investments in the CIS countries.



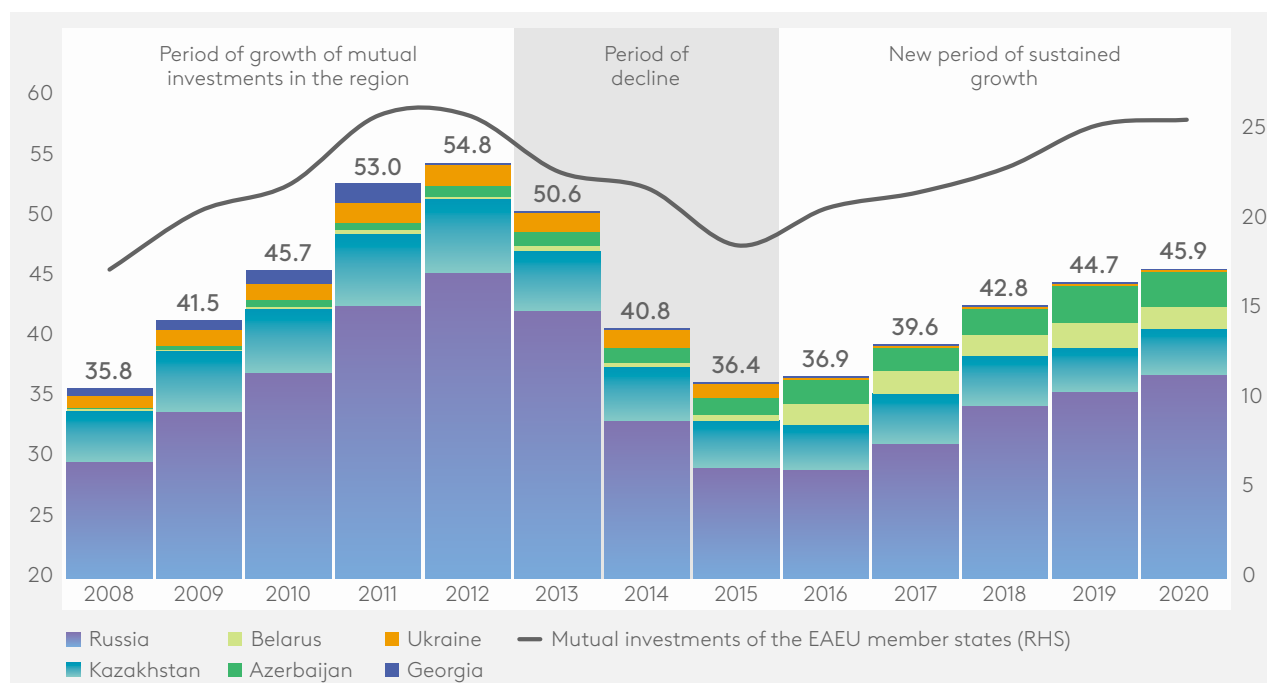
The EAEU is the nucleus of investment interaction in the post-Soviet area¹. The deepening of Eurasian integration is facilitated by the growth of mutual FDI volumes. Looking over the last ten years, we observe a decline in the mutual direct investment stock in 2013–2015. Companies from the EAEU member states reversed the trajectory of mutual FDI of the CIS countries in 2017. Due to investment activity of the Eurasian corporate sector in 2016–2020, the total value of mutual CIS FDI increased by 25% to USD 45.9 billion (see Figure A).

Corporate interrelations within the EAEU are more intensive than those within the CIS. At the end of 2020, the share of mutual FDI stock of EAEU member states in total mutual CIS FDI amounted to 55%.

Mutual FDI in the EAEU: growth by 24% over the last four years. By 2020, the mutual investment stock of the EAEU member states reached USD 25.4 billion. Kazakhstan boasts the highest FDI stock value and growth rate among the EAEU member states: USD 11.2 billion at the end of 2020, and an increase of USD 3 billion over four years.

Investment ties between the EAEU member states and other CIS countries remain strong. At the end of 2020, the relevant FDI stock stood at USD 18.0 billion (39% of total FDI of the CIS countries). Most projects are concentrated in Trade (both Wholesale Trade and Retail Trade), as well as in Financial Services, Real Estate, and Machine Engineering. The most capital-intensive projects were in Extraction of Oil and Natural Gas and Chemical Industry.

Figure A. Changes in Mutual Direct Investment Stock of the CIS Countries and the EAEU Member States, USD billions



Note: Inward mutual FDI stock originating from other countries is insignificant and included in total FDI stock.

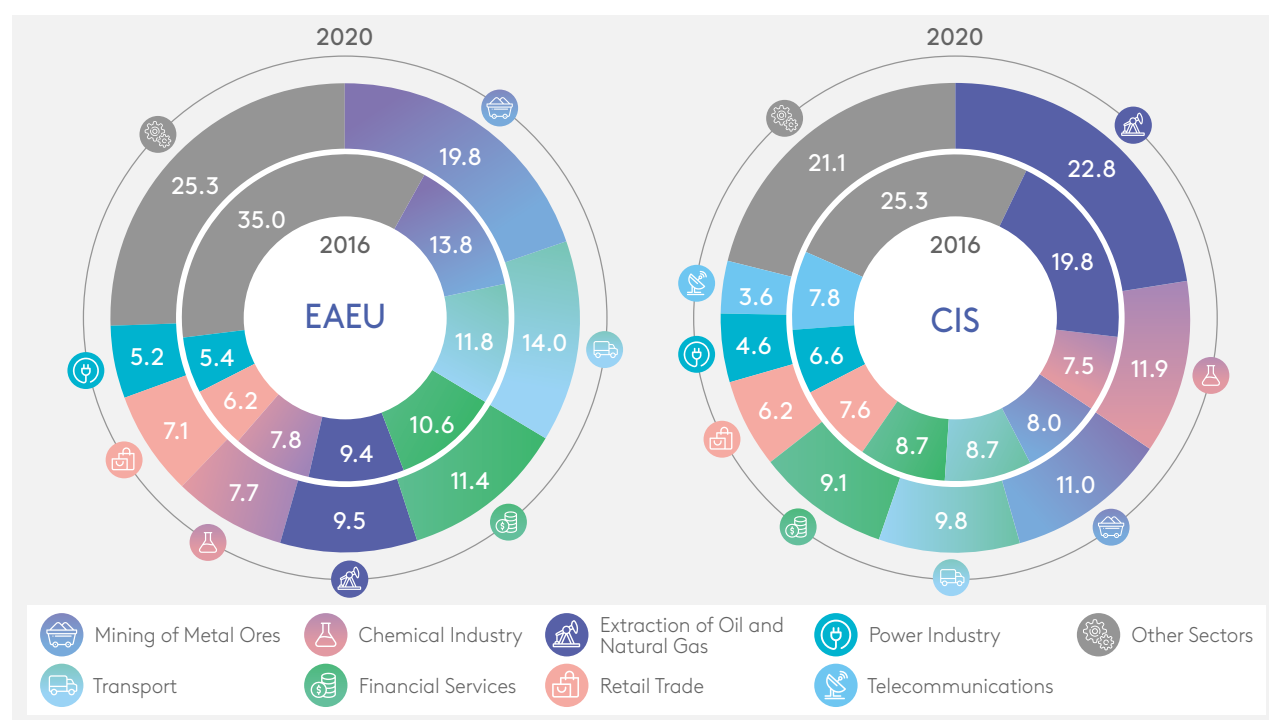
¹ In this report, the post-Soviet area includes the CIS countries and Georgia, excluding the Baltic states (“CIS countries”).

The growth of mutual FDI in the EAEU is qualitative. Investors are increasingly interested in knowledge-intensive production, greenfield projects, and low capital-intensity projects. This promotes modernisation and diversification of the economies of the EAEU member states.

At the end of 2020, the highest mutual FDI stock values in the CIS were reported for Extraction of Oil and Natural Gas (22.8% of total FDI stock), Chemical Industry (11.9%), and Mining of Metal Ores (11.0%) (see [Figure B](#)). The predominance of projects in Extraction of Oil and Natural Gas can be attributed to the Russian projects in Uzbekistan and Azerbaijan.

The sectoral structures of mutual FDI of the EAEU member states and the CIS countries are different. In the EAEU, the leading sector is Mining of Metal Ores (19.8%), followed by Land Transport and Transport via Pipelines (14%) and Financial Services (11.4%) (see [Figure B](#)). In the sectoral structure of mutual FDI in the EAEU, Extraction of Oil and Natural Gas takes only fourth place (9.5%). The leadership of Mining of Metal Ores is secured by the projects implemented by Russia and Kazakhstan. That sector made the largest contribution to the increase of mutual FDI stock of the EAEU member states over the last four years (USD 2.2 billion).

Figure B. Sectoral Structure of Mutual FDI Stock in the EAEU Member States and the CIS Countries in 2016 and 2020, %



A new trend is emerging — growth of mutual FDI of the EAEU member states in Manufacture of Motor Vehicles, Machines, and Electrical Equipment. Over the last three years, the value of such FDI stock increased by a factor of 1.6. However, it remains rather modest.

Private national investors hold a dominant share in the ownership structure of companies investing within the EAEU (55% at the end of 2020). The share of investor companies controlled by the state (with equity participations in excess of 50%) has changed little since

2016, and in 2020 stood at 36%. Half of those companies are fully controlled by the state. The number of projects where investor companies are co-owned by foreign TNCs has decreased over the last five years from 10% to 6%.

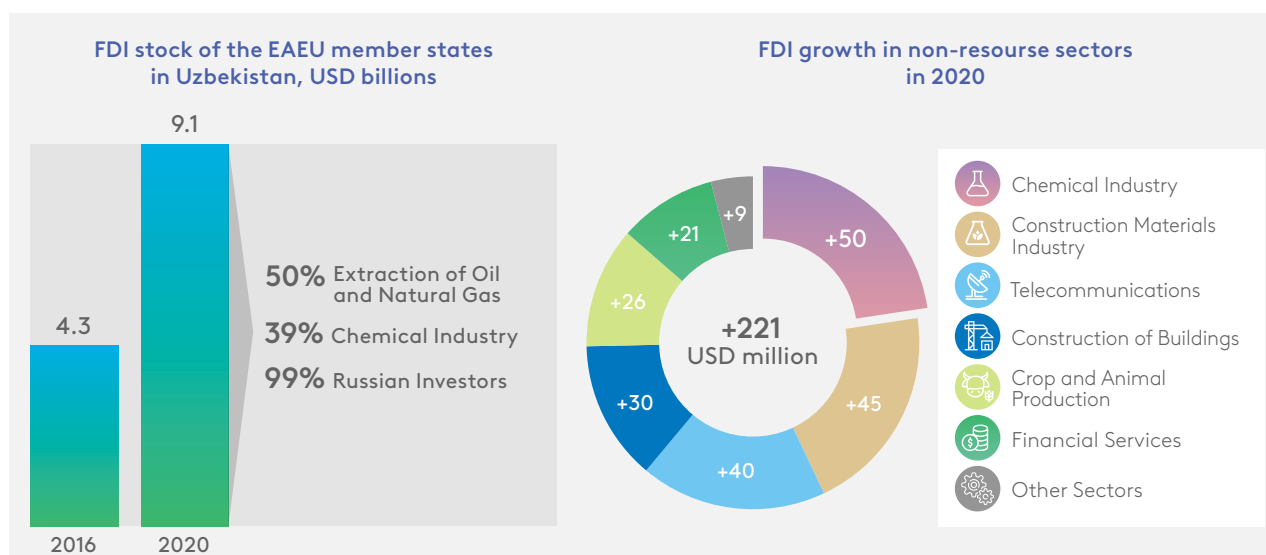
Eurasian investors display more interest in greenfield EAEU projects than in acquisition of equity participation. Over the last four years, such FDI stock has increased by a factor of 1.6, with annual growth rates in excess of 10%.

The seven largest Eurasian investor companies account for more than USD 11.3 billion of total capital investment stock accumulated in the EAEU by the end of 2020. Their share stands at 45% of mutual FDI of the EAEU member states, having increased by 4 p.p. over the last four years. Many leading TNCs, including the Russian oil and gas companies LUKOIL and Gazprom, are present in multiple sectors.

Russia is the only net exporter of mutual FDI stock in the post-Soviet area. At the end of 2020, Russian investors accounted for 80% of total outward FDI in both the EAEU member states and the CIS countries. Russia's key investment partner is Kazakhstan, with 30% of total Russian outward FDI in the CIS countries.

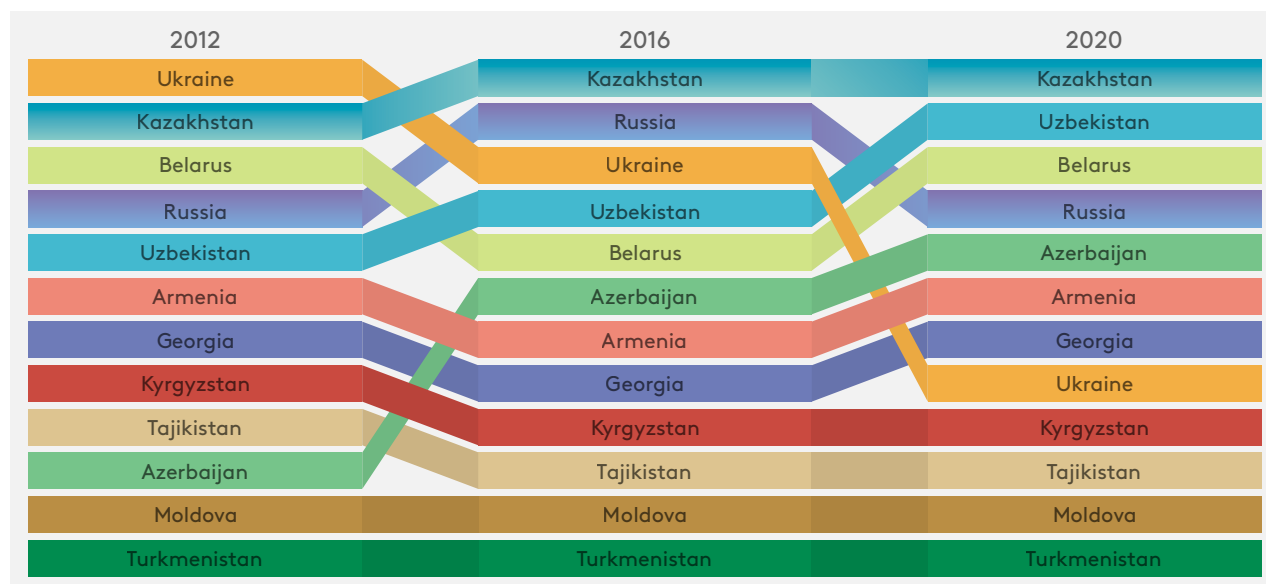
Russian investors are building up capital investments in the CIS countries, primarily in Uzbekistan and Azerbaijan, having drastically curtailed their investment activity in Ukraine. Over the last four years, Russian FDI in Uzbekistan and Azerbaijan has increased by a factor of 2.1 and 1.2, respectively. Uzbekistan has received 99% of all its post-Soviet FDI from Russia (USD 9 billion) (see [Figure C](#)), and Azerbaijan has received 99.3%, or USD 4.2 billion.

Figure C. Inward FDI in Uzbekistan Originating from the EAEU Member States



There have been significant changes in the rating of the mutual CIS FDI recipient countries. Kazakhstan steadily tops the list of FDI recipients. Uzbekistan has firmly established itself in second position in recent years. Russia has dropped down by two notches, with Azerbaijan, now in the fifth position, coming up close. Ukraine has shifted from its first place rating in 2012 to the eighth place at the end of 2020 (see [Figure D](#)).

Figure D. Changes in the Rating of the Principal Recipients of Mutual Direct Investments Originating from the CIS Countries



If Russia is taken out of the equation, EAEU investment pairs currently look rather unimpressive, with only Kazakhstan's FDI in Kyrgyzstan standing out. The "neighbourhood effect" continues to play the key role in Central Asian countries.

What is our view of the direction in which investment flows may evolve over the medium term?

- In the next several years, the structure of investment flows will be determined by integration developments in the region, and by the deepening of bilateral relations between the countries.
- The sectoral structure of mutual FDI stock will gradually become more and more diversified due to the expansion of Retail Trade, Financial Services, Manufacture of Motor Vehicles, Machines, and Electrical Equipment.
- With the global environmental agenda gaining importance, there will be a surge in mutual FDI in the "green" economy. Over the last two years, mutual FDI stock in such projects has increased by 56%. Kazakhstan will reinforce its leadership in attracting foreign direct investments in renewable energy sources.
- The number of greenfield projects will continue to grow at a rapidly expanding rate. Investors are increasingly interested in expanding into new markets with their technologies and resources. That process will be accompanied by transfer of technologies and modernisation of the FDI recipient countries.
- Active growth will be posted by small projects (with investments ranging from USD 1 million to USD 5 million) covering a broad range of sectors. That process will be facilitated by national export encouragement programmes, development of digital technologies, and integration of national markets.
- Uzbekistan will become one of the largest recipients of FDI not only from Russia, but also from other EAEU member states. It is also possible that investor companies from Uzbekistan will step up their activity in Russia and in the adjoining Central Asian countries.