Eurasian Development Bank

EDB Monitoring of Mutual Investments — 2023

Reports and Working Papers 23/5

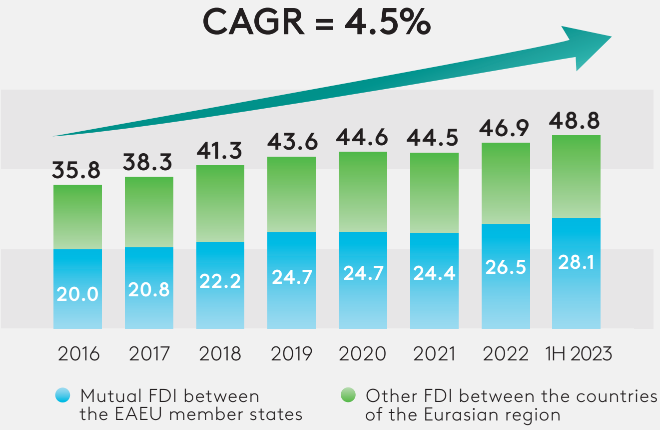
Almaty — 2023

EDB MONITORING OF MUTUAL INVESTMENTS — 2023

KEY CONCLUSIONS

ANALYTICAL REPORT'23

MUTUAL DIRECT INVESTMENT STOCK OF THE EURASIAN REGION COUNTRIES IS CONSTANTLY GROWING. THE SHARE OF MANUFACTURING INDUSTRIES IS INCREASING



57.6%
+2.7 p.p. vs 2021
share of mutual direct investments of the EAEU member states in total mutual FDI in the Eurasian region

18.0%
+1.9 p.p. vs 2021
share of manufacturing industries in mutual FDI of the Eurasian region

CENTRAL ASIA IS BECOMING INCREASINGLY ATTRACTIVE FOR EXTERNAL AND REGIONAL INVESTORS

Kazakhstan is the most attractive country for investing in the Eurasian region

27.2%
+0.7 p.p. vs 2021
Kazakhstan's share in mutual FDI of the countries of the Eurasian region (as a recipient of investments)

1.6x
increase in mutual direct investments in Kazakhstan since 2016

Intra-regional investment ties in Central Asia are strengthening

$1.1 bn
1.8x vs 2016
intra-regional direct investment stock in Central Asia

31.7%
–14.2 p.p. vs 2020
share of extractive industries (decrease due to increase in the share of manufacturing industries and financial services)

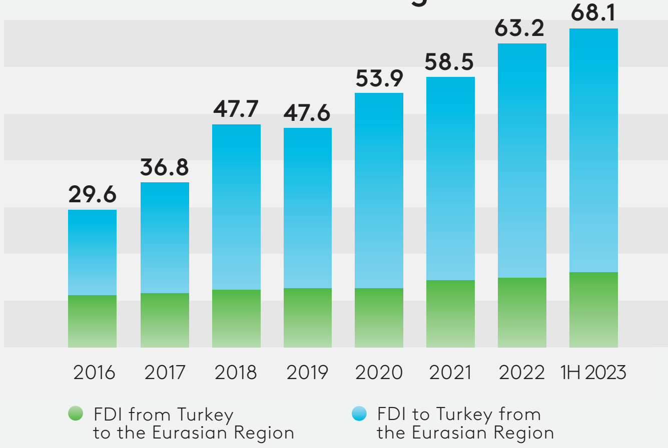
INVESTMENT COOPERATION AMONG THE COUNTRIES OF THE GREATER EURASIA IS EXPANDING

Movement and scope of mutual FDI of the countries of the Eurasian region with China, Turkey, and the Arab states of the Middle East and North Africa:

+24.7% vs 2016
$79.9 bn
Mutual FDI which China. Extractive industries are the priority investment target for Chinese investors in the region.

2.7x vs 2016
$8.4 bn
Mutual FDI with the Arab states (UAE, Saudi Arabia, Qatar, Egypt, Algeria, Iraq, Libya, Oman).
The power industry is the priority investment target for Arab investors in the region.

2.3x **dynamic growth of mutual FDI between Turkey and the countries of the Eurasian region**



Manufacturing industries are the priority investment target for Turkish investors.

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Malakhov, A., Serik, E., Zaboev, A. (2023) *EDB Monitoring of Mutual Investments — 2023*. Reports and Working Papers 23/5. Almaty: 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 countries of the Eurasian region. The analysis relies on a database maintained by the EDB on the basis of diverse data obtained from publicly available sources. The database is generated "from the bottom up". 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 direct investments of the countries of the Eurasian region from 2016 to 1H 2023. Special attention is paid to a review of mutual investments by companies from the Eurasian Economic Union member states, with special emphasis on their dual role as providers and recipients of capital. The authors also review mutual investments of certain individual countries, including those situated in the Greater Eurasia space (China, Iran, and the Arab states). Investment ties between the countries of the region and Turkey represent a new element of our research.

Keywords: direct foreign investments, mutual investments, investment projects, Eurasian Economic Union, Eurasian economic integration, transnational corporations.

JEL: E22, F15, F21, F23, F36, G31, G34.

The electronic version of the report is available at the Eurasian Development Bank website at https://eabr.org/en/analytics/special-reports/.

Your comments and suggestions concerning this report are welcome at: research@eabr.org.

Eurasian integration news, latest macroeconomic analyses, infrastructure monitoring reports, and other analytical opinions are published on a weekly basis in the Eurasian Development Bank Telegram channel: t.me/eabr_bank.

SUMMARY

The EDB Monitoring of Mutual Investments (EDB MMI) Database is an ongoing analytical project of the EDB. The database contains detailed information on mutual direct investment stock in the Eurasian region. The region covers 12 countries: Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine.

The EDB has been doing annual mutual direct investment reviews since 2012. The project's database forms the foundation of the EDB MMI (see Figure A). The EDB MMI database contains detailed information on investment projects, including the following: recipient sector, investor company, investor ownership type, recipient, nature of investment, estimated year-end investment value for each project from 2016 to 1H 2023. In 2023, the EDB MMI methodology was enhanced with additional parameters (sources of funds, uses of funds) to enable an even more robust analysis of ongoing investment projects.

A new feature that was added to the EDB MMI database in 2022 is information on mutual FDI of the countries of the Eurasian region with China, Iran, and the Arab states. A new element in 2023 is information on investment relations with Turkey.

↓ **Figure A. EDB MMI Database**

EDB MMI database — intellectual property of the Bank.
The EDB has monitored investment projects since 2012

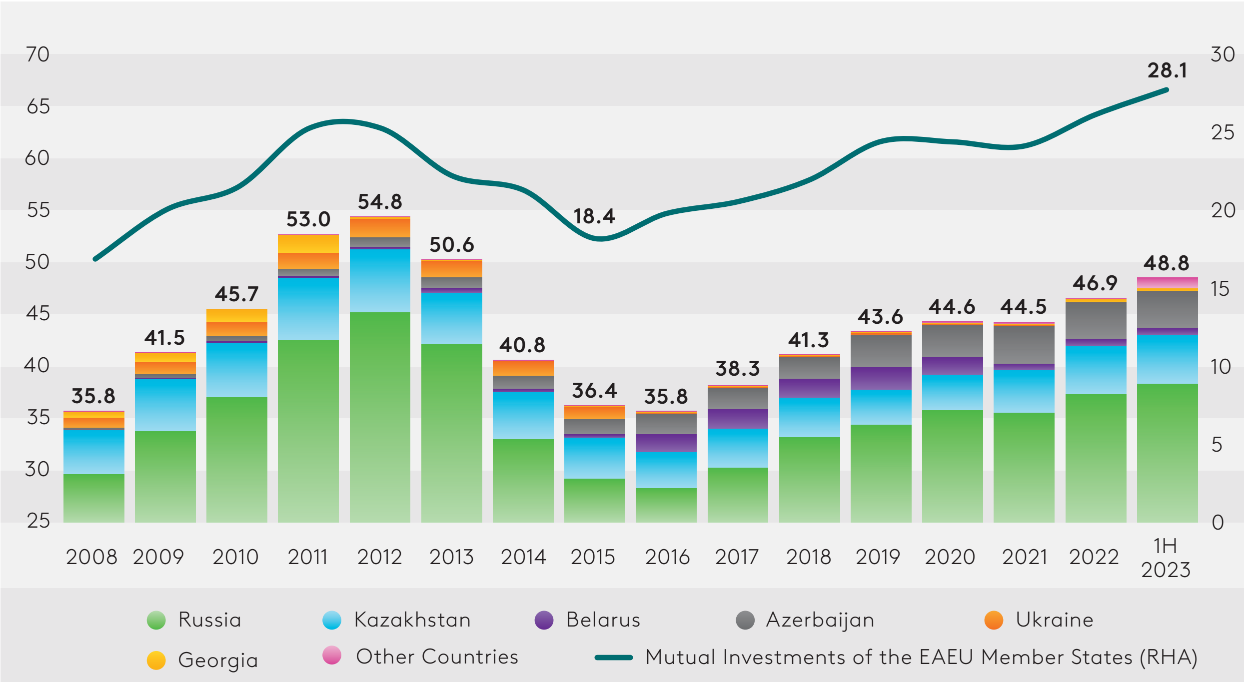
Unique Methodology	The database is updated and supplemented on an annual basis	Generated "from the bottom up" and **covers investments channelled through offshore areas**	Maintained on the basis of diverse data obtained from publicly available sources
Level of Detail	Information on the scope, development, geographical, and sectoral structure of mutual FDI	**Monitoring of a broad range of parameters** (ownership structure of the investor company, FDI form, etc.)	OKVED-based sectoral classification (to the second digit)
Broad Coverage	1,300+ investment deals in the region	Significant regional projects with values of $1+ million	**Mutual FDI between the countries of the region and China, Turkey, and the Middle East**
Benefits	Advantage in business decision-making	Applied analysis tool. Measurement of integration processes	**Supplements central (national) bank investment statistics**

Source: EDB.

By the end of 1H 2023, **total mutual direct investment stock of the countries of the Eurasian region amounted to $48.8 billion (see Figure B).** Mutual FDI stock of the countries of the Eurasian region increased by 5.4% in 2022, and continued to grow in 2023.

That upward movement was driven by several large deals, including the following: acquisition of the Stepnogorsk Mining and Chemical Combine (Kazakhstan) by Rosatom (Russia) for $1.6 billion; $577 million investment by Kazakhstan's Kaz Minerals into the Baimskaya Project in the Chukotka Autonomous District (Russia); and ~$160 million investment by EuroChem (Russia) in the construction of a new chemical fertiliser plant in Zhambyl Region (Kazakhstan).

↓ **Figure B. Scope and Structure of Mutual FDI Stock in the Eurasian Region, $ billions**



Source: EDB MMI Database.

Russia remains the main capital provider in the Eurasian region, with a 78.9% share at the end of 1H 2023 (EOY 2021: 80.3%). The second position in terms of outward FDI stock is held by Kazakhstan with 9.5%. Azerbaijan comes third with 7.3% of total investment in the region.

In 2023, Russian investors were involved in 12 of the 20 new projects, with a total value of $1.1 billion. Kazakhstan is the main recipient of Russian investments, largely due to the oil company KazMunaiGaz and its Russian partners — Sibur and Tatneft. Outside the EAEU, Tatneft investments in Uzbekistan produced the most impact on FDI flows.

Kazakhstan reinforced its status as the regional leader in terms of inward mutual investment stock, with 27.2% in July 2023 vs 26.6% in 2021. Other notable investment recipient countries in the region are Uzbekistan (19.8%), Belarus (12.0%), Russia (9.8%), and Azerbaijan (8.7%), while Armenia, Georgia, and Ukraine are at the bottom of the list with 6.8%, 6.1%, and 3.7%, respectively.

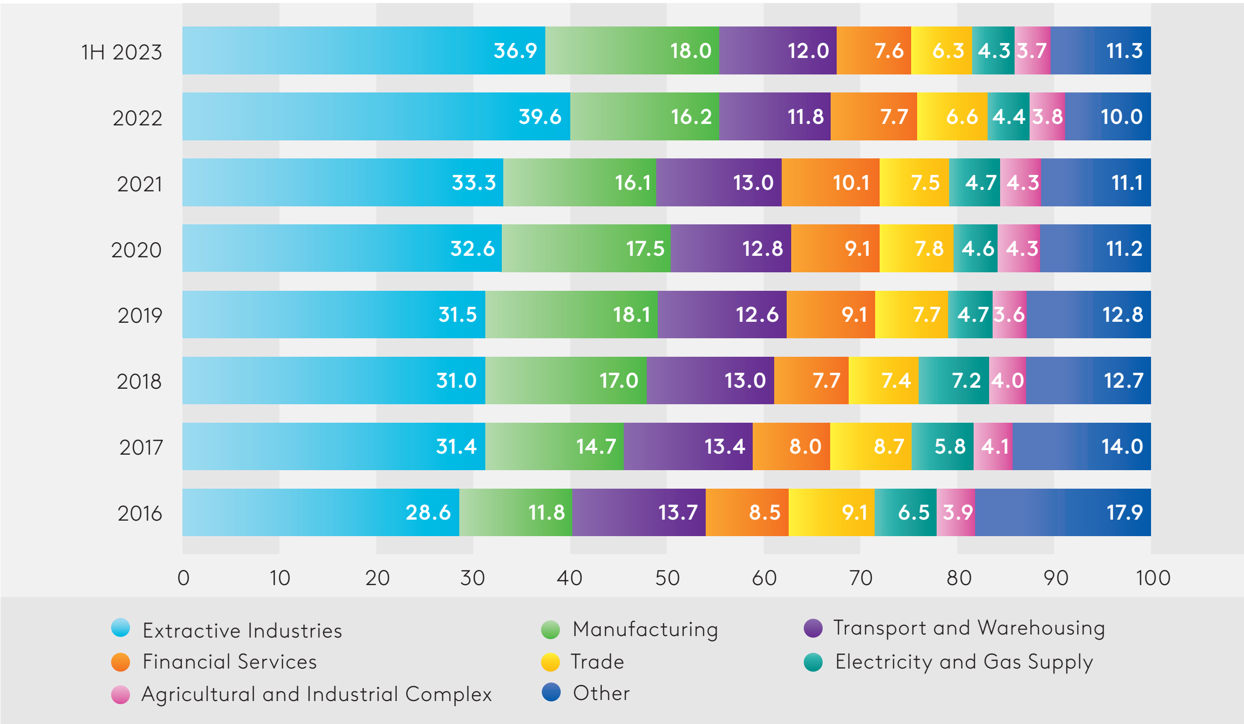
Russia–Kazakhstan mutual FDI is the largest in the region. The EDB MMI database has records of 119 investment projects of these two countries totalling $16.1 billion (57.3% of total EAEU mutual FDI, and 33% of total Eurasian region mutual FDI), of which $13 billion is represented by Russian projects in Kazakhstan. Kazakhstan is the leading recipient of Russian capital in the region.

Mutual investments in Extractive Industries are becoming more significant for the countries of the Eurasian region (Figure C). The share of such FDI currently stands at 37% ($18 billion) vs 29% in 2016 ($10.2 billion).

Land and pipeline transport is a major component of the region's economies. Its share in total mutual FDI stock of the region is 12%. Transport and logistics are also becoming increasingly attractive investment targets in Central Asia due to a realignment of commodity flows and the resultant expansion of distributor networks and warehousing infrastructure by Russia's largest marketplaces (Ozon, Wildberries).

There is also an increase in the number of mutual high value-added manufacturing projects. Nineteen out of a total of 99 such projects were launched in the last 18 months. The share of Manufacturing in total FDI is rapidly growing, having increased by 6 p.p. to 18% since 2016.

↓ Figure C. Structure of Mutual FDI Stock in the Eurasian Region, %



Source: EDB MMI Database.

The geopolitical situation had the most impact on Financial Services. The share of that sector decreased from 10% in 2021 to 8% in 2022–2023. In previous years, establishment of subsidiary companies by regional banks was the key upward driver of FDI stock in the sector. Until 2022, it was dominated by the Russian Sberbank (total FDI stock: $1.1 billion) and Alfa-Bank ($632 million). In 2022, after the sale of Russian banking assets in the CIS countries, the Armenian Ardshinbank had the second-largest FDI stock of $432 million. VTB topped the chart with $516 million.

Mutual FDI of the EAEU member states is estimated at $28.1 billion. The share of the EAEU in mutual direct investments of the countries of the Eurasian region reached 57.6% vs 54.8% in 2021, as investment co-operation among the EAEU member states intensified relative to co-operation with the other investment ties in the region.

Of the 28 new projects completed in the EAEU since 2022, 23 were in Kazakhstan, four in Russia, and one in Kyrgyzstan. Two of the four Russian projects were implemented by the Belarusian company Amkodor, which built two agricultural equipment plants in Leningrad

Region and Ufa. Kazakhstan's $34 million investment project for construction of a solar power plant in Kyrgyzstan was a pilot to promote investment collaboration in the Central Asia region.

In 1H 2023, total mutual direct investments in Central Asia amounted to $1.1 billion, increasing by a factor of 1.8 vs 2016. The key mutual capital investment targets include Extractive Industries (31.7%), Manufacturing (25.0%), and Financial Services (21.9%). The main internal investors in the region are Kazakhstan (87%), and Uzbekistan (13%). The largest investment recipient in Central Asia is Kyrgyzstan, with 63% of total mutual FDI. It is followed by Uzbekistan (24%) and Kazakhstan (11%). The largest projects in the region are being carried out by Kazakhstan's Kaz Minerals, United Cement Group, Halyk Bank, and Verny Capital, and by Uzbekistan's Artel and Alliance Textile.

Investment collaboration among the countries of the Eurasian region encounters a number of objective obstacles and limitations. The main hurdles include the persistent disparity in the level of economic development and quality of legislative and regulatory frameworks, trade and customs barriers, and underdeveloped transport and logistical infrastructure, especially in some countries of Central Asia.

In the medium term, changes in mutual investments in the Eurasian region may be somewhat erratic due to the financial constraints faced by Russian companies, and the mounting uncertainty. **According to our estimates, mutual investment trends in the Eurasian region are as follows:**

1. **The "geopolitical distance effect" will continue to play an important role.** The share of the EAEU member states in mutual investments in the Eurasian region will be increasing.

2. **Dynamic growth in Manufacturing.** This trend will be supported by stronger industrial co-operation, spurred by dwindling western imports. One notable example is TechnoNICOL, a Russian company which started the construction of a plant for the production of rock wool heat and sound insulators in Kazakhstan in 2022.

3. **Transport and Logistics are becoming increasingly attractive for investors.** This can be attributed to the realignment of commodity flows, primarily those traversing Central Asia, and the plans of Russian marketplaces to create local distribution centres in the countries of Central Asia.

4. **Increase in capital investments by Russia in the countries of the Eurasian region.** Capital investments that were previously intended to expand markets in the west will probably be redirected to the EAEU member states and the countries of Central Asia.

5. **Mutual FDI in Financial Services and Telecommunications will likely suffer from stagnation.** The current trend is explained by the exodus of Russia's and Kazakhstan's largest banks from several countries of the region. Telecommunications projects are also ebbing away.

6. **Modest increase in "green" investments.** In 1H 2023, there were only six "green" projects in the region, accounting for 1% of total investments.

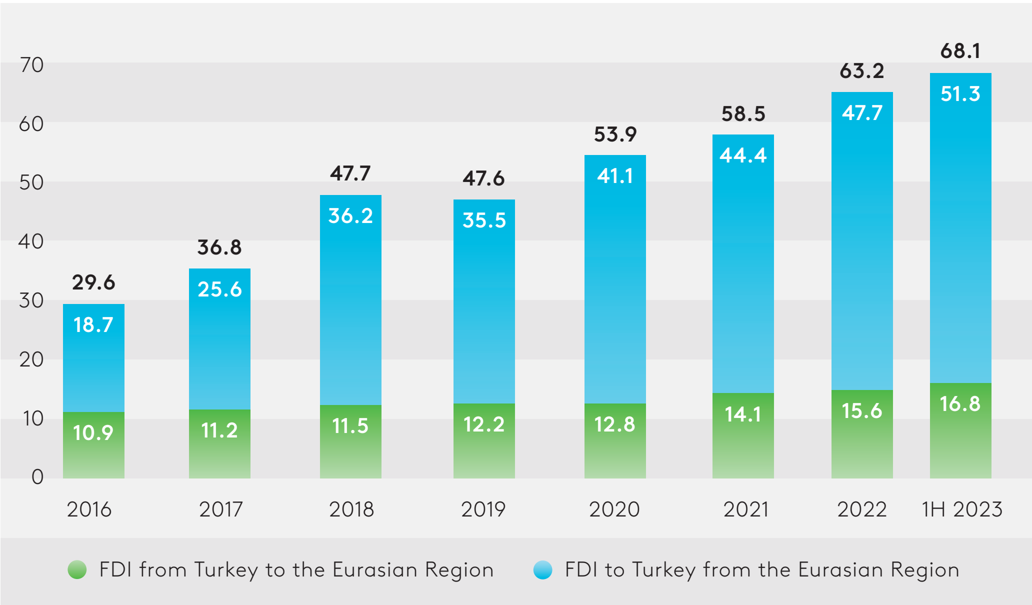
The Eurasian region is a net recipient of investment capital from China, Turkey, Iran, and the Arab states of the Middle East and North Africa. Kazakhstan is the largest investment recipient from these countries, with a total FDI stock of $46 billion.

Most mutual investments of the countries of the Eurasian region are associated with China and Turkey. They account for $79.9 billion and $68.1 billion, respectively, of total mutual FDI ($158.2 billion). China is a net investor in in the Eurasian region, while Turkey is a net recipient of capital.

Mutual FDI stock with Turkey is increasing rapidly. The average annual rate of growth of mutual direct investments with Turkey is 13%, while for China that indicator is merely 3.2%. Relative to 2016, mutual FDI with Turkey increased by a factor of 2.3, and the number of projects from 99 to 172. Turkish investors have also been increasingly active in Central Asia.

Turkish investments in the countries of the Eurasian region cover a broad range of sectors, with the largest amount going to Manufacturing (19.0%) and Extractive Industries (17.5%).

Russia accounts for the largest share of mutual FDI between Turkey and the CIS countries, with $40.4 billion (59.3%). It is followed by Azerbaijan ($20.5 billion, 30.1%), Kazakhstan ($3.4 billion, 5%), and Belarus ($1.3 billion, 2%). **Eurasian investments in Turkey are massive.** Three projects originating from the countries of the Eurasian region account for $33 billion of total FDI stock: construction of the Akkuyu NPP by Rosatom, construction of the TurkStream gas pipeline with the participation of Gazprom, and construction of the Trans-Anatolian Gas Pipeline (TANAP) with the participation of investors from Azerbaijan.



← **Figure D. Mutual Direct Investments of Turkey and the Countries of the Eurasian Region, $ billions**

Source: EDB MMI Database.

The countries of the Eurasian region are regarded as high-priority targets by Turkish investors. The share of the EAEU in Turkish direct investment stock increased from 1.6% in 2017 to 5.1% in 2022. Russia and Kazakhstan are among the non-EU countries that Turkish investors find most attractive.

Chinese investments in the Eurasian region are strategically important for both parties. They are related to Belt and Road infrastructure projects and power industry projects. By the end of 1H 2023, Chinese FDI stock in the countries of the Eurasian region was estimated at $79.0 billion, a 24.7% increase vs 2016. Direct investments in Oil & Gas and Pipeline Transport account for about 70% of the total. According to official PRC data, in 2021 Chinese investment stock in the EAEU member states stood at 3.9% of total Chinese FDI, a 5.5% decrease vs 2017.

In Central Asia, Chinese investments exceed Russian investments by a factor of 2.3. At the end of 1H 2023, Chinese investments amounted to $55.9 billion, Russian investments to $23.8 billion. Both countries show the most interest in the region's Extractive Industries.

Total mutual investment stock between the countries of the Eurasian region and their Islamic partners in the Middle East and North Africa (Iran, Saudi Arabia, UAE, Iraq, Kuwait, Bahrain, Qatar, Oman, Egypt, Algeria, Libya, and Morocco) **amounted to $10.2 billion**, of which $6.8 billion was invested in the Eurasian region. The key areas of economic co-operation between the Islamic states and the countries of the Eurasian region include financing of infrastructure projects, development of hydrocarbon deposits, and banking, particularly Islamic banking.