



Eurasian
Development Bank

EDB Monitoring of Mutual Investments 2022

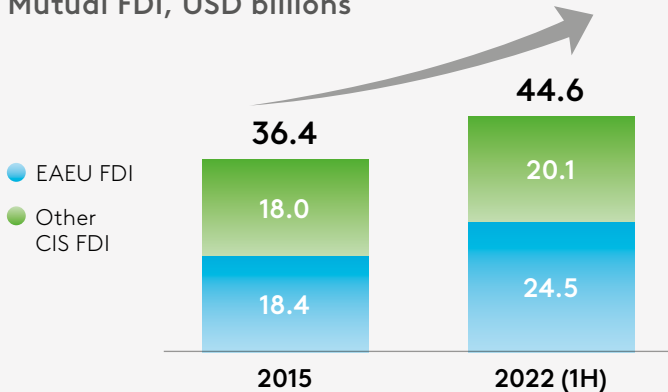
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EDB MONITORING OF MUTUAL INVESTMENTS — 2022 (ANALYTICAL REPORT)

Mutual Direct Investment Stock in the CIS and the EAEU

Mutual FDI, USD billions



Source: EDB MMI Database.

Russia is the main cross-border investor in the CIS

- Russia’s share in total outward FDI: 79.2%

Kazakhstan is the leading mutual FDI recipient in the CIS

- Kazakhstan’s share in total inward FDI: 24.3%

Azerbaijan is the CIS leader in outward FDI as a percentage of GDP

- 6.7% of GDP in Azerbaijan, 2.2% of GDP in Russia, and 2.0% of GDP in Kazakhstan

FDI Sectoral Priorities



Extraction of Oil and Natural Gas

(24%, + 6.5 p.p. over six years) — in the CIS



Mining of Metal Ores

(19.5%, + 5.3 p.p. over six years) — in the EAEU

The role of the Transport and Finance sectors is growing in EAEU investments



1.6x — increase in mutual investments of the EAEU member states in greenfield projects over the last six years



The share of projects implemented by investors with 100% private capital is **56%**

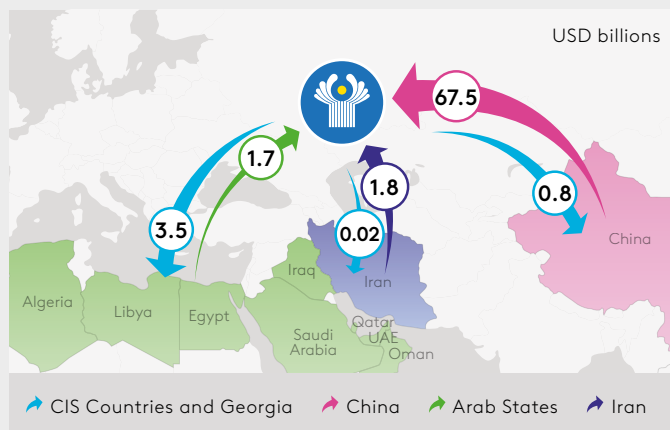
Mutual Investment Projects with China, Iran, and Arab States Have Growth Potential



New element of the 2022 Report — a review of mutual investments between the CIS and China, Iran, and Arab states



More than 170 active projects worth over USD 75 billion in the EDB MMI Database



Source: EDB MMI Database.

Medium-Term Prospects for Mutual Investments of the EAEU Member States and CIS Countries

- slowdown of general investment activity
- faster growth of FDI in greenfield projects
- increasing number of “green” investment projects in line with the global climate agenda
- stronger investment activity of Russian companies in a number of post-Soviet countries
- increased role of private capital in mutual FDI
- development of mutual investments with the countries of the Global South

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This report continues the series of publications detailing the findings of a long-standing research project monitoring 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 from 2016 to the first half of 2022, as well as mutual direct investments of the countries of the region with China, Iran, and the Arab states. Special attention is paid to a review of mutual direct investments by companies from the Eurasian Economic Union member states, with particular emphasis on their dual role as exporters of capital and as recipients of direct investments by companies from other post-Soviet countries.

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

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

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SUMMARY

Box 1

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 (see [Figure A](#)). Monitoring has been conducted since 2012 on the basis of diverse data obtained from publicly available sources. The database is generated “from the bottom up” on the basis of corporate statements and other primary information (see [EDB MMI Methodology](#) in the [Appendix](#)). In 2022, the EDB MMI database was supplemented with project information for 2021 and the first half of 2022.

A new feature that was added to the EDB MMI database in 2022 is information on mutual FDI of the CIS countries with China, Iran, and the Arab states.

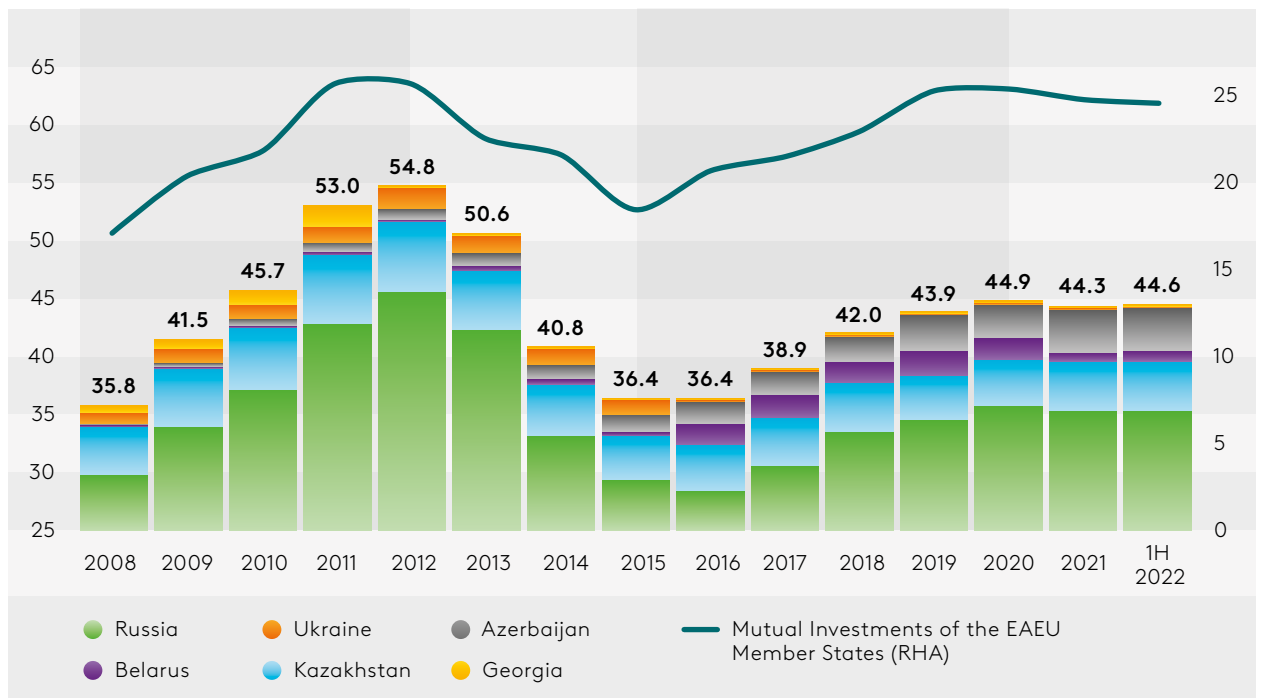
↓ [Figure A. EDB MMI Database](#)

The EDB MMI database is intellectual property of the Bank			
Unique Methodology	Broad Coverage	Level of Detail	Benefits
 Maintained since 2012 and updated annually	 1,300+ investment deals in the region	 Monitoring of a broad range of parameters (ownership structure of the investor company, FDI form, etc.)	 Advantage in business decision-making
 Generated “from the bottom up” and covers investments channelled through offshore areas	 Projects with values of USD 1 million+	 OKVED-based sectoral classification (to the second digit)	 Applied analysis tool
 Information on the scope, development, geographical and sectoral structure of mutual FDI	 FDI between the CIS and other countries — China, Iran, and Arab states	 Information on “green” deals	 Supplements central (national) bank statistics

Source: EDB MMI Database.

Mutual direct investment stock of the CIS countries amounted to USD 44.3 billion at the end of 2021, down by USD 561 million year-on-year. However, by the middle of 2022 that indicator had almost returned to the 2020 level, having reached USD 44.6 billion (see [Figure B](#)). In 2021, there were 14 new mutual FDI projects in the post-Soviet area, while eight projects were finished. In 2022, foreign investment activity stalled, with 30 projects terminated. The primary reasons are the withdrawal of Russian business from Ukraine, and the selloff of assets in a number of CIS countries to minimize exposure to possible secondary sanctions. In the middle of 2022, mutual FDI of the EAEU member states reached USD 24.5 billion, having increased by 19% from 2016.

↓ Figure B. Changes in Mutual FDI Stock of the CIS Countries, USD billions



Note: the scope of mutual FDI originating from other countries is insignificant, and included in total FDI stock.

Source: EDB MMI Database.

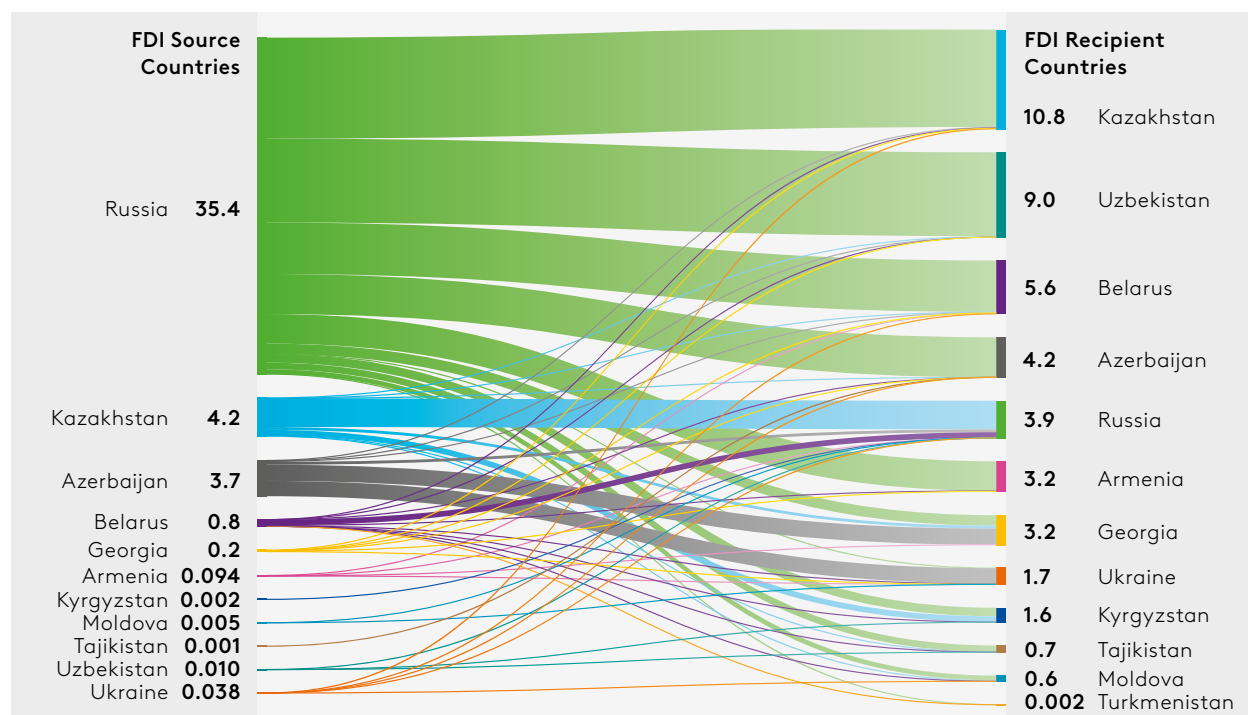
Russia is the main cross-border investor among the post-Soviet countries. In the middle of 2022, Russian FDI accounted for 79.9% of total CIS mutual investments. Kazakhstan and Azerbaijan were second and third with 9.5% and 8.4%, respectively. The share of Belarus (1.8%) was also significant. The most notable changes relative to 2016 were the increase in the share of Azerbaijan’s FDI and the decrease in the share of Belarus’ FDI. Despite the dominant role of Russian investments in the structure of mutual FDI, the share of outward FDI in Russia’s GDP was only 2%, while in Kazakhstan and Azerbaijan it was 2.2% and 6.7%, respectively.

Kazakhstan holds the leading position in the structure of inward FDI. By the end of the first half of 2022, its share in total inward mutual FDI was 24.3%. It is followed by Uzbekistan (20.1%) and Belarus (12.6%). Russia is in fifth position (8.8%), trailing Azerbaijan (9.5%). Significant figures are also reported for Georgia (7.2%), Armenia (7.1%), and Ukraine (4%). Changes in the structure relative to 2016 are substantial. Ukraine has lost ground, with its share down by two-thirds (from 12% to 4%). Uzbekistan posted the largest upward movement (from 11.7% to 20.1%) due to an improvement of the investment climate in the country.

The main recipient of Russian investments is Kazakhstan, with 53% of total Russian FDI in the EAEU and 30% of total Russian FDI in the CIS in the middle of 2022. At the same time, Russian investors have been actively building up their capital investments in Uzbekistan and Azerbaijan to offset their withdrawal from the Ukrainian market. Over the last six years, Russia’s FDI in Uzbekistan and Azerbaijan has increased by a factor of 2.1 and 1.7, respectively.

The five largest FDI directions involve Russia’s capital investments in Kazakhstan, Uzbekistan, Belarus, Azerbaijan, and Armenia. The EDB MMI database contains 58 records of country-to-country investment flows among the 12 post-Soviet countries (see Figure C). The sixth-largest FDI direction also involves Russia, but it is Kazakhstan’s FDI in Russia. Significant investment directions that do not involve Russia are Azerbaijan’s FDI in Georgia and Ukraine.

↓ Figure C. Mutual FDI of the CIS Countries in the Middle of 2022, USD billions



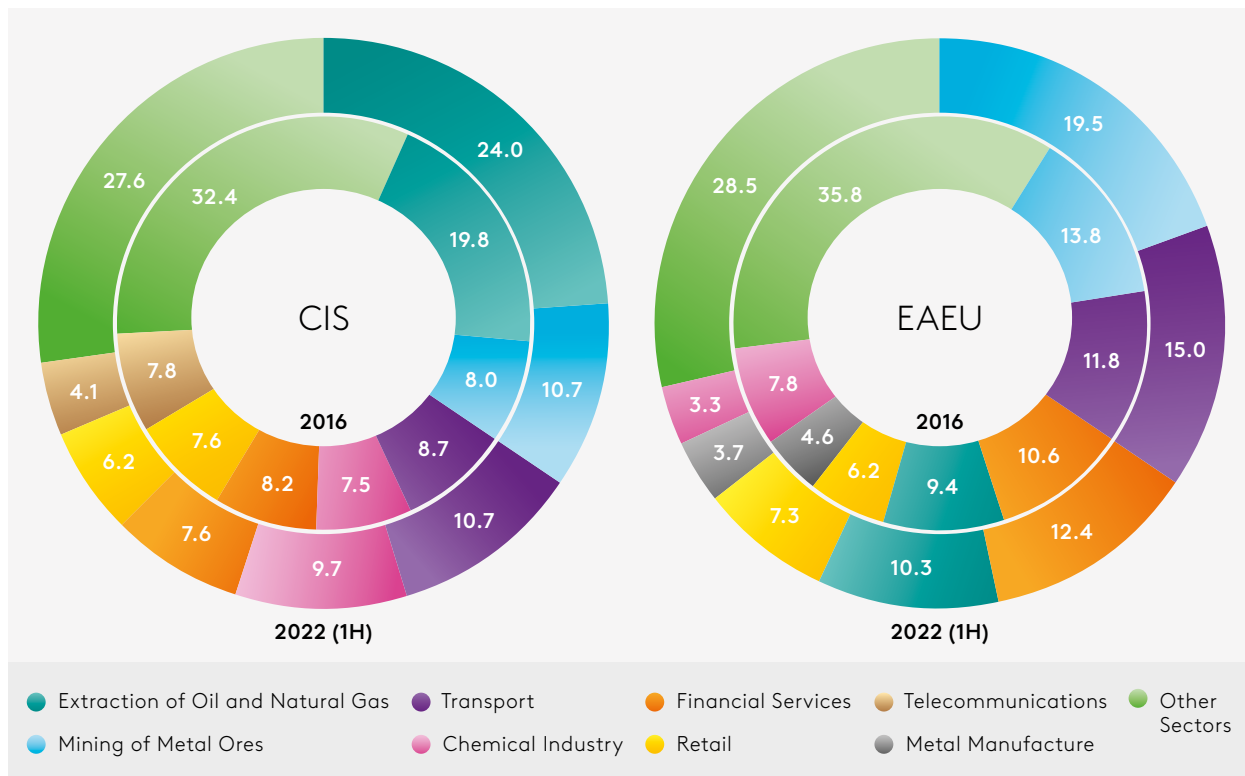
Source: EDB MMI Database.

The three leading sectors accounted for more than 45% of mutual FDI of the CIS countries. Investments in Extraction of Petroleum and Natural Gas comprised 24% of total FDI stock (see Figure D). Mining of Metal Ores and Land Transport and Transport via Pipelines shared second and third places with 10.7% each. At the end of 2016, the combined share of the three leaders was 34.4%. The composition of the leading group is driven by the predominance of investors from Russia and two other major oil and gas producing countries, namely, Kazakhstan and Azerbaijan.

FDI of the EAEU member states and FDI of the CIS countries have different sectoral structures. In the EAEU, Extraction of Oil and Natural Gas was only in fourth place, with Mining of Metal Ores topping the list.

Most projects have been implemented by investors with 100% private capital. In the middle of 2022, the share of such projects in total mutual FDI of the EAEU member states was 56%, having increased by 26% over the last six years. The share of projects with government stakes of 50% or more increased from 36% in 2016 to 39% in 2022. In 2022, half of those projects were implemented by companies with 100% state control.

↓ Figure D. Changes in the Sectoral Structure of Mutual Investments of the EAEU Member States and the CIS Countries, %



Source: EDB MMI Database.

Investments in greenfield projects in the EAEU have been growing at a particularly impressive rate. In the middle of 2022, such projects accounted for 32% of total mutual investments of the EAEU member states. Over the last six years, FDI in greenfield projects has increased by 57%. Other widespread FDI forms include asset purchases (30%, up by 13%), and “purchases with expansion” (33%, down by 3%). Other forms of investment accounted for 5%.

Mutual FDI of the EAEU member states in “green” projects remained insignificant. In the middle of 2022, investments in such projects reached USD 0.5 billion, securing a 40% increase over the last six years primarily due to the Hevel solar power station construction project in Kazakhstan. The remaining projects involved Russian investments in hydro power generation. Regional investors will probably become more interested in “green” projects as the global climate agenda gains momentum.

Russian TNCs are the main investors in the CIS. The leading investor in the region is LUKOIL, which has doubled its stake in Azerbaijan’s Shah Deniz oil and gas project. The combined share of Russian companies LUKOIL and Gazprom (including Gazprom Neft) in total mutual FDI stock in the CIS is more than 40%.

Commercial banks from Russia have invested in the expansion of their subsidiary networks in the CIS. In the first half of 2022, the highest FDI stock was reported by Sberbank, followed by VTB, Gazprombank, and Alfa-Bank. One of the key events in 2022 was the sale by Russian Sberbank of its subsidiary in Kazakhstan.

One of the most important non-Russian investors in the post-Soviet area is Kazakhstan’s KAZ Minerals, which has invested USD 0.9 billion in the Baimskaya copper project in the Chukotka Autonomous District. In 2019, the list of top investors saw the addition of Azerbaijan’s Bakcell, which replaced Russia’s MTS in the Ukrainian mobile communication services market.

Mutual investments between the EAEU member states and the states of the Orient and the Global South have growth potential. Chinese investment expansion into the post-Soviet area is significant (see [Figure E](#)). Investors from the PRC are creating strong opportunities for progressive economic development of those states. Iran has every chance to become, with time, a full-fledged participant of mutual FDI flows of the post-Soviet integration nucleus within Greater Eurasia. The Arab world is heterogeneous in many respects, and FDI is no exception to that rule.

The PRC surpasses Russia in terms of the scope of FDI in the CIS. In the first half of the 2010s, China lagged far behind Russia as a source of FDI in the CIS. By the middle of 2022, China's FDI stock in the 12 post-Soviet countries exceeded USD 67.5 billion, including USD 12.5 billion of investments in Russia. Investors from the PRC have become more active in Russia. In 2016–2022, China's FDI stock in Russia has increased by 27.4%, while its FDI stock in all EAEU member states is up by 8.1%.

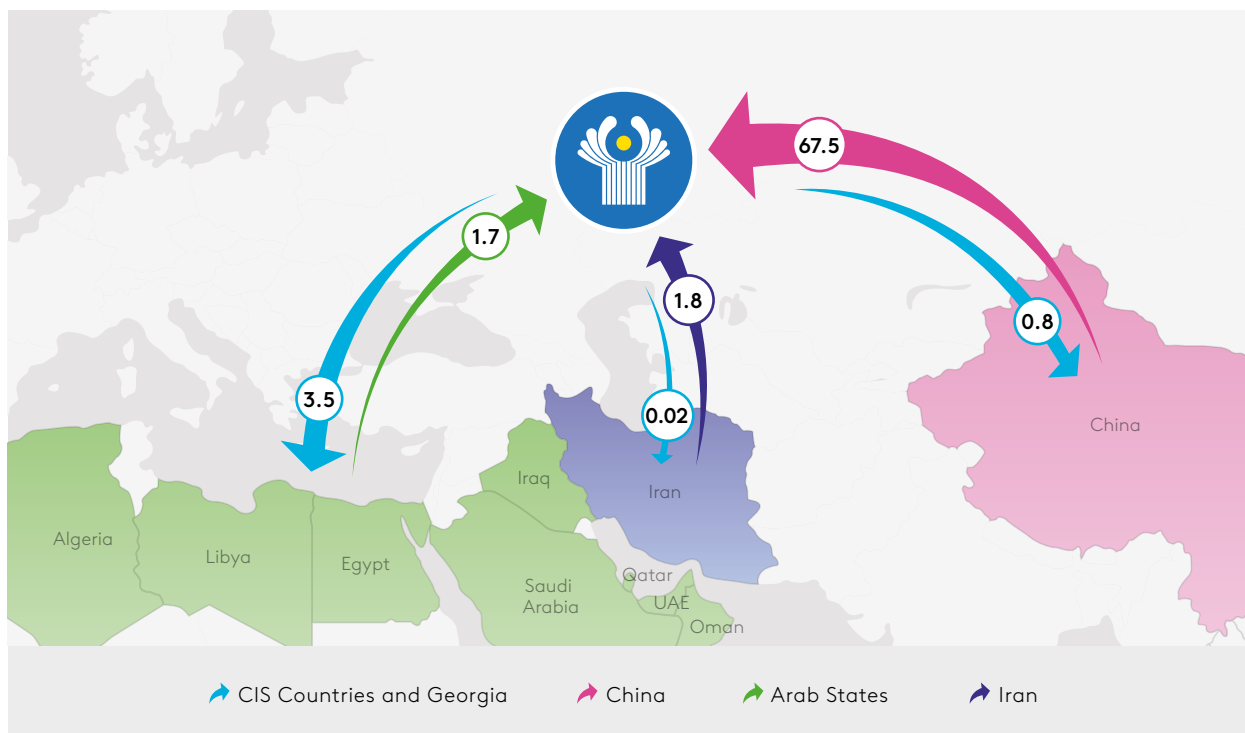
The main Chinese investment expansion destinations in the CIS are Kazakhstan, Kyrgyzstan, and Tajikistan. Priority sectors include oil and gas production and pipeline transport in Kazakhstan, gold mining and oil refining in Kyrgyzstan, and gold mining and cement production in Tajikistan. In those countries, China can become the leading investor, while in Tajikistan it accounts for more than half of total FDI. In China itself, significant FDI projects have been implemented only by Russian TNCs.

Iran's total FDI in the CIS has reached USD 1.8 billion, with Azerbaijan the key recipient. Iran invests in Armenia, Belarus, Kazakhstan, Russia and (outside of the EAEU) Tajikistan. Investments by the CIS member states in Iran are still modest. One of the notable projects is the construction by Kazakhstan's KazAgro of a grain terminal in Amirabad on the Caspian Sea.

In most cases, Arab states act as recipients of FDI, primarily from Russia. The largest projects are implemented by LUKOIL and Rosneft, and involve oil production in Egypt. There are also several LUKOIL, Rosneft, and Gazprom investment projects in Iraq. Other notable projects include the establishment of a Rosneft research facility in Qatar in 2018, and the construction of a Metalloinvest plant in the UAE. The UAE has a high concentration of significant Russian FDI in the services sector (LUKOIL, VTB).

The precarious geopolitical situation in 2022 makes it next to impossible to make reliable FDI projections. The authors believe that mutual FDI stock of the CIS countries may decrease over the medium term. At this time, the ability of companies from Kazakhstan or Azerbaijan to replace Russian TNCs is limited.

↓ Figure E. Mutual FDI of the CIS and Other Countries in the Middle of 2022, USD billions



Source: EDB MMI Database.

Box 2

Medium Term Prospects for Mutual Investments of the EAEU Member States and CIS Countries:

- ✓ slower growth (and, possibly, a decrease) of mutual investment stock due to mounting uncertainty and strengthening of the dollar;
- ✓ ongoing faster growth of FDI in greenfield projects (the relocation of Russian production facilities, including relocation to the EAEU member states and CIS countries, may become an additional factor);
- ✓ an increasing number of “green” investment projects while the global climate agenda remains relevant;
- ✓ stronger investment activity of Russian companies in a number of post-Soviet countries, including Kazakhstan, Uzbekistan, Azerbaijan, Belarus, and Armenia, due to both support and expansion of existing projects as well as the forced redirection of capital flows to the Eurasian region;
- ✓ an increased share of projects implemented by investors with 100% private capital, and a possible slowdown in investment activity by state-owned companies;
- ✓ development of mutual investments with the countries of the Global South.