EAEU and Eurasia: Monitoring and Analysis of Direct Investments

EDB CENTRE FOR INTEGRATION STUDIES

Annual Report Presentation

December 2016
Centre for Integration Studies was established by the Eurasian Development Bank (EDB) in 2011. Compact and flexible structure. Leading think-tank on the matters of regional economic integration.

5 years: 40 public reports and 50+ research notes for national ministries, presidential administrations, and the Eurasian Economic Commission.

The Centre’s focus is on quantitative analysis and applied research in the following fields:

- Economic impact of the Eurasian Economic Union (EAEU)
- Macroeconomic modeling
- Macroeconomic policy coordination, monetary and fiscal policies, integration of financial markets
- Mutual investments and trade flows (proprietary databases)
- Systematic analysis of regional integration (Regional Integration Database)
- Labour migration and remittances
- Social perceptions of integration
Monitoring of Direct Investments of EAEU, Azerbaijan, Tajikistan, and Ukraine in Eurasia Outside the CIS

Geographical structure:
FDI of EAEU countries, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside of the CIS and Georgia

FDI of Austria, the Netherlands, Turkey, UAE, Iran, India, Singapore, Vietnam, China, South Korea, and Japan in EAEU countries, Azerbaijan, Tajikistan, and Ukraine

✓ Maintained since 2013
✓ Detailed information on the scope, dynamics, geographical, and sectoral structure of investments
✓ Created “bottom up” based on various sources (most importantly, thousands of yearly and quarterly company reports)
✓ Reveals actual ownership of investments, including those made through offshore structures and other “trans-shipping destinations”, as well as reinvestment of profits obtained overseas
✓ More than 1150 investment deals executed in Eurasia
Monitoring of Direct Investments of EAEU, Azerbaijan, Tajikistan, and Ukraine in Eurasia Outside the CIS

What does investments monitoring provide?

• Unique data
• Supplements and sometimes challenges official data provided by national banks and UNCTAD
• Analytics as concerns volumes, industries, and types
• Annual reports with the results of investments monitoring in EAEU countries and Eurasia Outside the CIS
• Insights and briefs served the interests of the main EDB beneficiaries
## Features of the DIM-Eurasia Database in 2008-2015

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<tbody>
<tr>
<td>Total FDI stock recorded in DIM-Eurasia Database, year-end, $ billion</td>
<td>96.6</td>
<td>112.4</td>
<td>125.5</td>
<td>146.3</td>
<td>166.4</td>
<td>182.5</td>
<td>187.1</td>
<td>204.5</td>
</tr>
<tr>
<td>FDI stock accumulated by EAEU countries, Azerbaijan, Tajikistan, and Ukraine in Eurasian countries outside the CIS and Georgia, $ billion</td>
<td>40.9</td>
<td>46.0</td>
<td>52.7</td>
<td>66.7</td>
<td>77.1</td>
<td>84.8</td>
<td>85.7</td>
<td>99.2</td>
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<td>FDI stock accumulated by Russia in Eurasian countries outside the CIS and Georgia, $ billion</td>
<td>32.7</td>
<td>36.7</td>
<td>43.0</td>
<td>56.6</td>
<td>65.2</td>
<td>71.2</td>
<td>69.5</td>
<td>81.9</td>
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<td>FDI stock accumulated by Austria and the Netherlands in EAEU countries, Azerbaijan, Tajikistan, and Ukraine, $ billion</td>
<td>17.7</td>
<td>19.2</td>
<td>22.5</td>
<td>25.3</td>
<td>27.9</td>
<td>28.6</td>
<td>28.1</td>
<td>31.6</td>
</tr>
<tr>
<td>FDI stock accumulated by China in EAEU countries, Azerbaijan, Tajikistan, and Ukraine, $ billion</td>
<td>11.1</td>
<td>16.9</td>
<td>18.3</td>
<td>20.3</td>
<td>21.8</td>
<td>26.3</td>
<td>27.7</td>
<td>27.4</td>
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</table>
In 2008-2015 FDI stock of EAEU countries in Eurasia increased by $52 billion and at the end of 2015 amounted to $88 billion.
Geographical Priorities of Eurasian Investors in the EAEU, Azerbaijan, Tajikistan, and Ukraine at the End of 2015 (FDI Stock, $ billion)

China is a leader among 11 Eurasian countries in terms of FDI stock in the region.
Share of Russian Capital Investments in Total FDI Stock in Eurasian Countries at the End of 2015

Sources: EDB Centre for Integration Studies and UNCTAD data.
## Leading Russian Direct Investors in Countries of Eurasia

<table>
<thead>
<tr>
<th>Company</th>
<th>FDI stock at the end of 2015, $ billion</th>
<th>Number of countries in which at least $3 million has been invested</th>
<th>Leading recipient country of Russian FDI and its share</th>
</tr>
</thead>
<tbody>
<tr>
<td>LUKOIL</td>
<td>13.70</td>
<td>21</td>
<td>Iraq — 29.3%</td>
</tr>
<tr>
<td>LetterOne</td>
<td>9.40</td>
<td>3</td>
<td>Germany — 58.0%</td>
</tr>
<tr>
<td>VimpelCom</td>
<td>9.07</td>
<td>4</td>
<td>Italy — 82.8%</td>
</tr>
<tr>
<td>Sberbank</td>
<td>7.85</td>
<td>10</td>
<td>Turkey — 80.0%</td>
</tr>
<tr>
<td>Gazprom (including Gazprom Neft)</td>
<td>6.82</td>
<td>16</td>
<td>Germany — 49.3%</td>
</tr>
<tr>
<td>Renova</td>
<td>4.67</td>
<td>3</td>
<td>Switzerland — 78.3%</td>
</tr>
<tr>
<td>Rosneft</td>
<td>3.20</td>
<td>5</td>
<td>Germany — 39.3%</td>
</tr>
<tr>
<td>VTB Group</td>
<td>2.84</td>
<td>14</td>
<td>Austria — 27.9%</td>
</tr>
<tr>
<td>Russian Railways</td>
<td>2.15</td>
<td>5</td>
<td>France — 47.3%</td>
</tr>
</tbody>
</table>

Oil-and-gas majors are traditional leaders in volumes of Russian FDI exported to Eurasian countries. LUKOIL leads the pack. Top-10 includes another three oil-and-gas majors — Gazprom and Rosneft.
Sectoral Structure of Russian FDI Stock in Countries of Eurasia (End of 2015)
Kazakhstan – the Second FDI Exporter Outside the EAEU

- In 2009-2015 the amount of Kazakh FDI stock in countries of Eurasia outside the CIS increased from $3.3 billion to $6 billion
- Heavy emphasis on oil and gas
- Kazakh FDI are less diversified than Russian ones
- EU countries remain the main recipient of Kazakh direct capital investments, with 90.5% of total Kazakh FDI going to Eurasian countries
- Significant recipients are Romania, France, Austria, Bulgaria
- Almost not present in Asia
Sectoral Structure of Kazakh FDI Stock in Countries of Eurasia (End of 2015)

- Oil and Gas: 55.3%
- Ferrous Metals: 3.7%
- Mechanical Engineering: 3.5%
- Chemical: 29.4%
- Construction: 1.2%
- Transportation: 3.3%
- Communication and IT: 0.9%
- Wholesale and Retail Trade: 2.4%
- Finance: 0.3%
- Tourism: 1.2%

Eurasian Development Bank
FDI Export of Armenia, Belarus, Kyrgyzstan, and Tajikistan in Countries of Eurasia

- In 2009-2015 the amount of Belorussian FDI stock in countries of Eurasia increased from $108 million to $183 million.
- Sectoral structure of Belorussian FDI in countries of Eurasia: transportation (30%), finance (24%), wholesale and retail trade (18%).
- Major recipients of Belorussian FDI – Cyprus, Lithuania, Latvia.
- Prerequisites for the growth of Armenian, Kyrgyz and Tajik FDI are decidedly absent.
- There are precious few investment projects from Armenia, Kyrgyzstan, and Tajikistan. The scope of their FDI is small.
China: Leading in Terms of Incoming FDIs in the EAEU

- During the last 7 years Chinese FDI stock in EAEU countries grew by a factor of 2.4 (from $11 billion to $25.7 billion)

- Geographical structure of Chinese FDI:
  - A major portion of Chinese FDI is concentrated in Kazakhstan (82%);
  - Chinese companies also invest in economies of Russia and Belarus

- Sectoral structure of Chinese FDI in the EAEU: oil-and-gas (63%) and oil-and-gas related transportation (pipelines, 24%)

- 98% of Chinese FDI in Kazakhstan is concentrated in the production and transportation of hydrocarbons

- Heightened competition between large Chinese and Russian TNCs for Kazakh hydrocarbons.
Geographical structure of Chinese FDI in the EAEU

- Russia: 82%
- Kazakhstan: 13%
- Belarus: 3%
- Kyrgyzstan: 2%
- Armenia: 0%
In the beginning of 2016 Turkish FDI stock in EAEU countries has reached $7.4 billion, up 1.4% over the year. Turkey became the Asian top investor in the sectors not related to hydrocarbon production and transportation.
Other Significant Asian Investors in EAEU

India:
- Indian FDI stock is distributed among Russia ($5.8 billion), Kazakhstan ($2.4 billion) and Kyrgyzstan ($2 million)
- Other economies of the EAEU have attracted weak interest from Indian TNCs
- Sectoral structure is dominated by ferrous metals and the oil-and-gas sector (chiefly as a result of ONGC's participation in oil-and-gas projects)
- Somewhat significant FDI is focused on just three other sectors — finance, chemical industry, agriculture and food products.

Republic of Korea:
- The Republic of Korea invests in both Russia and Kazakhstan
- A major portion of South Korean FDI is concentrated in Russia ($2.1 billion, or 88% of total South Korean FDI stock in the EAEU)
- Sectoral structure: Mechanical Engineering, Construction, Tourism, Agriculture and Food Products.
A Mid-Term Outlook

In 2017 direct investors from Eurasian countries will be more active in the EAEU.

- The development of China’s “One Belt, One Road” initiative is expected to become one of the stimuli for FDI inflows;
- Chinese investors have already begun to show interest not only in hydrocarbon production, but also in transport, infrastructure, and the power sector, among others;
- There’s a chance that Japanese and South Korean FDI will grow in a wide range of sectors while dialogue between Russia and Japan and between EAEU countries and the Republic of Korea steps up.
Thank you for your attention!

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EAEU AND EURASIA: MONITORING AND ANALYSIS OF DIRECT INVESTMENTS
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