Summary

The DIM-Eurasia Database is an ongoing EDB Centre for Integration Studies’ project. The database contains detailed information on FDI stock related to projects implemented by investors from EAEU countries, Azerbaijan, Tajikistan, and Ukraine in the Eurasian continent outside the CIS. The database also records inward investments from 16 Eurasian countries.

The database is generated “from the bottom up”, i.e., its creators rely on corporate statements and other sources of primary information. As a result, the DIM-Eurasia Database makes it possible to consider such factors as investments channelled through offshore structures and other “trans-shipping destinations”, and reinvested foreign profits. In this respect, it differs from official statistics.

Inward FDI in the EAEU, Azerbaijan, Tajikistan, and Ukraine

- **Inward FDI stock** originating from the 16 countries featured in the DIM-Eurasia Database (primarily China, the Netherlands, Japan, India, Austria, and Turkey) and invested in EAEU states, Azerbaijan, Tajikistan, and Ukraine continues to grow. By the end of 2016, its accumulated value increased by 11.8% (vs. 3% in 2015), reaching $128.9 billion.

- **China continues to expand its economic presence in EAEU countries and other CIS states, retaining its leadership among Asian countries in terms of FDI stock in the region.** At the end of 2016, FDI stock accumulated by Chinese TNCs in the five EAEU countries, Azerbaijan, Tajikistan, and Ukraine amounted to $33.7 billion, a 12.7% year-on-year increase. The bulk of direct capital investments originating from China is concentrated in Kazakhstan, with an FDI stock of $21.5 billion (Figure A).

- **The shares of Russia, Tajikistan, and Belarus in Chinese outward FDI have increased.** Over the last six years, the share of Kazakhstan has decreased from 92% to 64%, while the shares of Russia and Tajikistan have, conversely, increased from 4% to 24% and from 1% to 6%, respectively. The last three years have witnessed an upsurge of interest demonstrated by Chinese investors in Belarus and, to a lesser extent, Kyrgyzstan.

- **Russia is becoming the priority target for new projects by Chinese investors.** In 2016, five out of eight new projects with Chinese FDI in the EAEU were in Russia. On the whole, Chinese FDI stock in the Russian economy amounted to $8.2 billion, having increased in 2016 by $3 billion, or 57.5%. The key target sector for most
Chinese investors is Oil and Gas, although its share followed a persistent downward trend, having declined from 86.8% in 2010 to 74.1% in 2016. This was partially attributable to the growth of FDI in Chemicals and Non-Ferrous Metals. However, neither sector’s share has yet exceeded 5%. Over the last six years, a significant inflow of investment capital into Construction and Mechanical Engineering has occurred. Agriculture and Food Products (processing of agricultural raw materials) has shown vibrant growth for the last three years. The share of FDI in Transport, on the other hand, has declined.

- For the time being, Japan maintains the largest FDI stock in Russia among Asian countries. In 2016, the Russian economy received $15.1 billion of Japanese FDI compared to $14.8 billion in 2015. Russia’s share in the total FDI stock in the countries under review has not changed, remaining stable at 96%. As for the other EAEU and Central Asian countries, Japanese companies have assumed a wait-and-see stance, and are now busy sizing up the most promising projects. Russian Oil and Gas accounts for 65% of total investment stock accumulated by Japanese TNCs in post-Soviet states, closely followed by manufacturing.

- Following the establishment of an EAEU-Vietnam free trade area, Vietnamese companies have notched up their economic activity in EAEU countries. However, so far all Vietnamese outward FDI has been concentrated in Russia: at the end of 2016, total stock amounted to $667 million, having increased by 23% relative to 2015.
Direct Vietnamese capital investments in Russia are distributed among three sectors: Oil and Gas (81%), Construction (12%), and Agriculture and Food Products (6%).

- **Singapore continues to boost its FDI in the EAEU.** By the end of 2016, Singaporean FDI stock in the EAEU had increased by 15% to exceed $800 million, with Russia and Kazakhstan getting $786 million and $15 million, respectively. Singaporean FDI stock in the EAEU is evenly distributed among three sectors: Transport, Agriculture and Food Products, and Construction. The growing interest that Singaporean TNCs are showing in the EAEU subject to the possible start of free-trade-area negotiations creates an opportunity to realise, over the course of the next several years, a huge potential to attract additional foreign capital investments, which will probably focus on the most sophisticated industries.

- **The interests of South Korean companies in the post-Soviet area are centred mostly around two EAEU countries—Kazakhstan and Russia.** It is notable that Russia is not the primary recipient of South Korean FDI (unlike with Japanese direct capital investments), even though it holds a hefty 39% share ($2.1 billion). The bulk of foreign investment capital has gone to Kazakhstan—$3.1 billion, or 58% of total South Korean outward FDI in the post-Soviet area. Out of the sectors registered in the DIM-Eurasia Database, Oil and Gas, Mechanical Engineering, and Agriculture and Food Products account for most of the FDI originating from South Korea. No South Korean FDI is in Russian Oil and Gas.

- **Turkey continues to steadily increase its FDI despite the loss of one year to the crisis in its relations with Russia, and the rather anaemic macroeconomic metrics in most CIS countries.** Total Turkish outward FDI stock has reached $11.6 billion, a 4% year-on-year increase (Figure B). Kazakhstan was the centre of attraction for Turkish FDI in 2016, with direct capital investments by Turkish TNCs in the Kazakhstan economy up by 34%, or $315 million. Russia has increased Turkish FDI stock by 2%, while Azerbaijan, one of the key investment partners of Turkey, has lost 0.5% of direct capital investments by Turkish TNCs. Stability of investment flows originating from Turkey is largely attributable to the high degree of diversification of Turkish FDI: capital of Turkish origin is represented in almost all recipient sectors.

- **Capital investments by most other Southwest Asian and South Asian countries in the EAEU are modest in terms of total value, and lopsided in sectoral structure.** India invests mostly in Russian Oil and Gas; however, the real investment potential of the Indian corporate sector remains a mystery. Iranian investments in CIS countries go primarily to Azerbaijan (Oil and Gas). Saudi Arabia has a rather insignificant presence in Kazakhstan, while Russia has received no Saudi FDI at all (however, a breakthrough may be achieved following the historic 2017 visit by the King of Saudi Arabia to Russia).

- **UAE investors have considerably increased their FDI in the EAEU, with Kazakhstan as their chief partner.** Total UAE direct investment in that country amounts to almost $1.5 billion out of a total of $2 billion in the entire post-Soviet area. There are about 200 businesses with UAE equity participation currently operating in Kazakhstan.
Moreover, over the last several years, **Kazakhstan has been quite successful in attracting investors from the Middle East, South Asia, and Pacific Asia.** In 2016, UAE FDI stock in Russia increased by $0.6 billion compared to zero FDI in previous years.

- **By the end of 2016, Dutch FDI increased in Kazakhstan, while Austrian FDI went up in Russia.** DIM-Eurasia experts track FDI from two European countries (the Netherlands and Austria) primarily to separate “real” FDI originating from those countries from capital investments whereby they are used only as “trans-shipping destinations”. According to our monitoring, in 2016, investments by Dutch companies in the eight CIS countries under review increased by almost 15% year-on-year, or by almost $4 billion. The increase was mostly attributable to revaluation of certain investments in large-scale oil and gas projects based on newly published data. As a result, Kazakhstan was found to be the leading recipient of “real” Dutch FDI. The main part of Austrian FDI stock in the EAEU was accumulated in Russia. Following the 2014 events (which led to a reduction of FDI in Russia in general, and of Austrian FDI in particular), results for 2016 improved somewhat, with Austrian outward FDI stock in Russia up by more than 18%—the largest increase among all EAEU countries, Azerbaijan, Tajikistan, and Ukraine.
Outward FDI Originating from the EAEU, Azerbaijan, Tajikistan, and Ukraine

- **EAEU countries, Azerbaijan, Tajikistan, and Ukraine continue to increase their outward FDI in non-CIS Eurasian countries.** In 2016, that indicator rose by 8%, or by $8.4 billion. In 2008–2016, total outward FDI stock originating from the CIS countries under review grew by a factor of 2.6, with Russia and Azerbaijan being the best performers.

- **Russia is currently not particularly interested in investing in East and Southeast Asia (Figure C).** Over the last year, Russian outward FDI stock in that region took a slight dive following steady growth by a total of 46% over the eight-year period under review. Last year’s most notable events were the sharp decline of Russian FDI in Mongolia (by a factor of 29), India (by one third), and Lithuania (by one half), as opposed to Egypt, where Russian investment presence grew by 45% to $3.3 billion.

- **Percentage shares of Russian FDI in Asian countries are often higher than in European countries.** Despite the importance of European countries as recipients of Russian FDI, the share of Russian capital investments in total FDI stock is higher in a number of Asian countries (see Figure D). However, while in the post-Soviet area and the Balkans, the key factors are the “neighbourhood effect” and the absence of linguistic, cultural or informational barriers, in Asia the critical factor is political.

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**Figure C.**
Changes in Russian Outward FDI in the Regions of Eurasia in 2008–2016 (DIM-Eurasia Data), $ billion

- **Non-EU European Countries**
- **EU-28**
- **Asia Pacific**
- **Middle East**
- **South Asia**
SUMMARY

European countries remain the main recipients of Kazakhstani outward FDI, with 85% of total Kazakhstani FDI stock in Eurasian countries. According to our data, in 2016 Kazakhstani outward FDI stock in non-CIS Eurasian countries amounted to almost $6.5 billion. Oil and Gas remains Kazakhstan’s key international specialisation sector, invariably accounting for more than half of its total FDI. The second position is held by Wholesale and Retail Trade (more than one fourth of total outward FDI), the third position by Tourism (more than one fifth of total outward FDI). Romania is the main recipient of Kazakhstan’s direct investment ($4.9 billion).

Azerbaijan is the top capital exporter among non-EAEU CIS countries. Over the last five years, the average annual increase of Azerbaijani FDI in non-CIS Eurasian countries was 41%. By the end of 2016, total Azerbaijani outward FDI stock in the region reached $16.9 billion. Almost three-fourths of all Azerbaijani investments are concentrated in Turkey, even though the UAE and certain European countries have also received sizeable Azerbaijani investment capital injections. 82% of Azerbaijani FDI went into Oil and Gas and related projects, and 15% into real estate deals. There are almost no investments in foreign production projects not related to Oil and Gas.

Figure D. Share of Russian Capital Investments in Total FDI Stock in Eurasian Countries at the End of 2016, %

Source: in-house calculations based on DIM-Eurasia and MIM CIS Databases; UNCTAD.
Outlook for Future Investment Flows in Eurasia over the Next 1–3 Years:

- **China** will continue to actively increase its investment presence in EAEU countries, and particularly in Russia, where Chinese TNCs will be acquiring assets not only in Oil and Gas and Chemicals, but also in other industrial sectors. A considerable upsurge of investment activity is anticipated in mining.

- Resolution of the political conflict between **Turkey** and Russia will enable a revival of Turkish TNC operations in the EAEU. We anticipate Turkish FDI to post modest but steady growth in Russia, Kazakhstan, and Belarus.

- A breakthrough in economic interactions is possible between **Saudi Arabia** and Russia. Inflow of Saudi FDI over the next several years is estimated at $8–10 billion.

- **India** will continue to invest in Russia and Kazakhstan, but Indian TNCs will be losing in their competition with China.

- **Russia** will retain its assets in Europe, but no significant growth is expected.

- **Russian** FDI has good growth prospects in Iran (Oil and Gas, Transport Engineering), India (Services), and Vietnam (impact of the investment section of the FTA).

- **Azerbaijan** is turning into a significant capital exporter.