MONITORING
OF MUTUAL INVESTMENTS
IN CIS COUNTRIES
2016

Report 39

Eurasian Development Bank
Centre for Integration Studies
Saint Petersburg
2016
This report is the seventh in a series of publications presenting the findings of a permanent research project concerned with the monitoring of mutual investments in CIS countries and Georgia. The analysis is built on a database that has been maintained on the basis of diverse data obtained from publicly available sources. The database is generated “from the bottom up”, as its creators rely on corporate statements and other primary information. As a result, the project makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations”, and reinvested foreign profits.

The report contains detailed information on the scope, dynamics, geographical and sectoral structure of mutual investments in CIS countries and Georgia as of the end of 2015. Special effort was made to thoroughly analyze mutual direct investments of companies representing member states of the Eurasian Economic Union. The authors also consider, for the first time, mutual cross-border portfolio investments and long-term credits.

Electronic version of the report is available on the Eurasian Development Bank’s website at: http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/invest_monitoring/
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ACRONYMS AND ABBREVIATIONS

CBR – Central Bank of the Russian Federation (Bank of Russia)
CDN – Commodity Distribution Network
CIS – Commonwealth of Independent States
DIM-Eurasia – Monitoring of Direct Investments by Russia and Certain Other Post-Soviet States in Europe and Asia outside the CIS and Georgia
EAEU – Eurasian Economic Union
EDB – Eurasian Development Bank
FDI – Foreign Direct Investment
FX – Foreign Exchange
IMF – International Monetary Fund
IT – Information Technologies
JV – Joint Venture
MIM CIS – Monitoring of Mutual Investments by CIS Countries and Georgia
OECF – Organization for Economic Co-operation and Development
RAS IMEMO – Primakov National Research Institute of World Economy and International Relations (Russian Academy of Sciences)
RSCI – Russian Science Citation Index
TNC – Transnational Corporation
UNCTAD – United Nations Conference on Trade and Development
Summary

The CIS Countries and Georgia Mutual Direct Investments Monitoring Database (MIM CIS) is an ongoing EDB Centre for Integration Studies project. The database contains detailed information on mutual FDI stock related to projects implemented by investors from post-Soviet countries.

MIM CIS has been maintained since 2011 on the basis of diverse data obtained from publicly available sources. The database is generated “from the bottom up”, as its creators rely on corporate statements and other primary information. As a result, MIM CIS makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations”, and reinvested foreign profits. In this respect, it is different from official statistics.

The MIM CIS Database features data which represent critical inputs for comprehensive investment project analyses: investor country, recipient sector and industry (according to the two-level classification developed within the framework of the project), investor company, FDI recipient region, project, nature of investment (e.g., greenfield project or acquisition), project start year (project completion year for finalized investments), FDI year-end value in 2008–2015, additional comments, and sources of information.

The applied nature of the database makes it relevant both for researchers and for EDB member state government bodies which seek, more and more frequently, to obtain useful supplementary MIM CIS-based information and analyses.

- **Mutual FDI in the CIS: negative changes gaining momentum.** According to monitoring results, at the end of 2015 mutual CIS and Georgia FDI stock amounted to $42.4 billion (excluding projects valued at less than $1 million). The indicator — which in 2009–2012 had grown from $36.9 billion to $57.2 billion — has reversed its vector, having succumbed to a downward trend that emerged in 2013. In 2015 CIS and Georgia FDI stock shrank by $2.2 billion, or by 5% (see Figure A).

- **Devaluation of national currencies became the key FDI contraction driver in 2015.** The overall negative impact was the net result of the operation of multiple intertwined causes: generally adverse economic conditions, aftermath of the Ukrainian crisis, and revaluation of investments by companies (among other things, reflecting the weakening of national currencies).

- **Russian investors accounted for almost 80% of the total mutual FDI in CIS countries.** The second and third places go to Kazakhstan (11.6% of total exported FDI) and Azerbaijan (5% of total exported FDI), respectively.
• **The share of non-Russian FDI is slowly climbing.** In the record-breaking year of 2012, 82.6% of total exported direct investments were attributable to Russia. Meanwhile, business in CIS countries which used to lag behind Russia is being gradually internationalized. Having made solid footprints in the CIS, Russian TNCs often prefer to invest in third countries.

• **In the next several years, we may witness a change of leadership in terms of FDI imports from CIS countries.** Ukraine still remains the largest mutual FDI recipient with 20.2% of total FDI imports from the CIS (at the end of 2012 that indicator stood at 32%). **But by the end of 2015 Ukraine was almost overtaken by Belarus** (19.8% of total FDI imports). Kazakhstan came in third with 16.8% of total FDI imports from the CIS and Georgia.

• **On the whole, in 2008–2015 mutual FDI in the five EAEU countries was more sustainable than in the other post-Soviet countries** (see Figure B). At the end of 2015, total mutual FDI stock in the EAEU amounted to $23.7 billion (a 6.6% decrease year-on-year). The contribution of mutual FDI by EAEU countries to total mutual direct investments originating from CIS countries and Georgia went up from 47% in 2008 to 56% in 2015.

• **By the end of 2015, Russian FDI stock decreased the most in Kazakhstan, where it fell by 19% on the back of a massive tenge devaluation and subsequent asset revaluation, rather than following termination of investment projects.** In Belarus, Russian investment stock went down by 2.4%, while Armenia and Kyrgyzstan reported its increase. In the end of 2015, Russia accounted for 81.5% of exported FDI stock and 15.1% of FDI imports into the EAEU (see Table A).

• **The leading mutual FDI sectors in the EAEU are Oil and Gas and Non-Ferrous Metals** (see Figure C). Their combined share is considerably higher than in total mutual investments of CIS countries and Georgia. The leading positions of Oil and
Gas are buttressed by the two largest projects in EAEU countries — Gazprom’s gas transportation subsidiary in Belarus and LUKOIL’s hydrocarbons production project in Kazakhstan. Mutual FDI in EAEU countries plays a more prominent role in Transportation and Agriculture and Food Products. On the contrary, the shares of mutual FDI in Communication and IT, Finance and Infrastructure Networks in EAEU countries are lower than on the whole for the CIS and Georgia.

- **Despite the large number of projects in the MIM CIS Database, Russia’s high metrics are generated by a rather limited circle of companies.** Russian TNCs dominate among other countries’ TNCs in terms of capital exportation and investment geography (see Table B).

- **The Russian Investors Top Five includes Gazprom, LUKOIL, MTS, VimpelCom, and VTB Group.** At the end of 2015, they accounted for $18.3 billion of total FDI stock. This represents 43% of the total mutual direct capital investments in the CIS and Georgia (or almost 54% of the total Russian FDI in all post-Soviet countries).
SUMMARY

Figure C. Sectoral Structure of EAEU Mutual FDI Stock at the End of 2015

Table B. Top Investor Companies in the MIM CIS Database at the End of 2015

<table>
<thead>
<tr>
<th>Company / Investor</th>
<th>Country</th>
<th>Main Recipient Sector of the Company’s FDI</th>
<th>FDI Stock, $ billion</th>
<th>Countries in the Region with Active Subsidiaries (where FDI exceeds $1 million)</th>
<th>Main Recipient Country in the Region</th>
<th>Share of That Country, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom</td>
<td>Russia</td>
<td>Oil and Gas</td>
<td>7.36</td>
<td>7</td>
<td>Belarus</td>
<td>70</td>
</tr>
<tr>
<td>LUKOIL</td>
<td>Russia</td>
<td>Oil and Gas</td>
<td>6.27</td>
<td>6</td>
<td>Kazakhstan</td>
<td>48</td>
</tr>
<tr>
<td>MTS</td>
<td>Russia</td>
<td>Communication and IT</td>
<td>1.75</td>
<td>5</td>
<td>Belarus</td>
<td>45</td>
</tr>
<tr>
<td>VimpelCom</td>
<td>Russia</td>
<td>Communication and IT</td>
<td>1.52</td>
<td>7</td>
<td>Ukraine</td>
<td>26</td>
</tr>
<tr>
<td>VTB Group</td>
<td>Russia</td>
<td>Finance</td>
<td>1.35</td>
<td>6</td>
<td>Ukraine</td>
<td>78</td>
</tr>
<tr>
<td>SOCAR</td>
<td>Azerbaijan</td>
<td>Oil and Gas</td>
<td>1.12</td>
<td>2</td>
<td>Georgia</td>
<td>85</td>
</tr>
<tr>
<td>Meridian Capital</td>
<td>Kazakhstan</td>
<td>Transportation</td>
<td>1.04</td>
<td>3</td>
<td>Russia</td>
<td>90</td>
</tr>
<tr>
<td>VS Energy</td>
<td>Russia</td>
<td>Infrastructure Networks</td>
<td>1.03</td>
<td>1</td>
<td>Ukraine</td>
<td>100</td>
</tr>
<tr>
<td>Alexander Katunin and Others</td>
<td>Russia</td>
<td>Ferrous Metals</td>
<td>1.00</td>
<td>1</td>
<td>Ukraine</td>
<td>100</td>
</tr>
<tr>
<td>Vemy Capital</td>
<td>Kazakhstan</td>
<td>Tourism</td>
<td>0.90</td>
<td>2</td>
<td>Russia</td>
<td>78</td>
</tr>
</tbody>
</table>
• Azerbaijan has a special place in the post-Soviet mutual investments area. It is one of two countries (Russia being the other one) acting as net exporters of direct capital investments into CIS countries and Georgia. Azerbaijani FDI in post-Soviet countries is characterized by non-stop growth — in 2015 it went above the $2.1 billion mark (see Figure A). Direct investments by Azerbaijani companies are also special in that they have broad sectoral diversification. Almost all Azerbaijani FDI is located in Georgia (88%). This can be explained not only by the territorial proximity of the two countries, but also by the need to secure export interests.

• The unrelenting political and economic instability in Ukraine continues to stifle mutual FDI flows. On the whole, in 2015 Ukrainian FDI stock originating from post-Soviet countries declined by 5%. On the other hand, the exodus of Russian companies did not degenerate into a stampede. We see two reasons for resorting to such tactics. First, in practical terms, disposal of Ukrainian assets at a reasonable price is rather difficult. Second, some of those assets (for example, banks) retain certain market appeal and remain attractive. Most investors hold on to their assets, in some cases marking down their values.

• In 2015 Ukraine, as an investor into CIS countries, continued to lose ground as fast as it did in 2014. Total Ukrainian FDI stock shriveled by 16.2% in 2014, and then by another 15.5% in 2015.

• The scope of mutual portfolio investments in the post-Soviet area is by an order of magnitude smaller than the scope of mutual direct capital investments. We estimate that such capital investments stand at about $3 billion (and fluctuate quite significantly from year to year). On the whole, in 2015 CIS and Georgia mutual portfolio investment stock went down by 13%, mostly due to devaluation of bonds denominated in national currencies. Currently the largest of all CIS and Georgia mutual portfolio investments is the 5% stake owned by LUKOIL in the Tengiz oil field development project in Kazakhstan ($1.8 billion). It should be noted, though, that major projects involving mutual portfolio investments in the post-Soviet area are rather few and far between.

• In absolute terms, Russian portfolio investors take an undisputed lead, but Kazakhstan has also gained some visibility due to Integrated Accumulative Pension Fund investments. Perception of the position of Russia as a country of origin of investments is vastly different depending on whether one takes into account the large-scale portfolio investments made by LUKOIL in Kazakhstan (Tengiz oil field). If yes, Russia is the largest country of origin of portfolio investments, if no, the balance of Russian portfolio investments into post-Soviet countries becomes considerably less significant.
Introduction

In late 2011, the EDB Centre for Integration Studies, in partnership with a research team of the Primakov National Research Institute of World Economy and International Relations (IMEMO) of the Russian Academy of Sciences (RAS), commenced monitoring of mutual direct investments by CIS countries and Georgia (EDB Centre for Integration Studies, 2012, and subsequent reports). Over the last 5 years, there has emerged a detailed database featuring direct investments in the post-Soviet area. The database is eagerly sought both by researchers and by members of the business community who more and more often display interest in acquiring useful supplementary information and analyses based on MIM CIS data. According to the RSCI system, scholarly journals alone already contain about 100 references to publications featuring MIM CIS.

Another important competitive advantage that makes MIM CIS a valuable complement to official direct capital investment statistics is the fact that FDI data are collected using a unique proprietary methodology. It eliminates investment project accounting deficiencies which plague central banks and government statistical agencies that operate in post-Soviet countries.

First and foremost, MIM CIS records actual asset locations. Unfortunately, unlike the German Bundesbank or certain other foreign entities collecting statistical information on FDI, neither the Central Bank of the Russian Federation nor central banks of the other CIS countries are currently making any attempt to maintain parallel FDI records both by the country of first destination and by the country of last destination. As a result, MIM CIS — which additionally covers FDI made through offshore structures and other “trans-shipping destinations” — provides a more adequate picture of the overall scope of mutual investments in the CIS (which is much larger than officially registered).

Painstakingly detailed processing of financial statements and other corporate reports, mass media publications, and data from other sources has made it possible to generate, within the framework of the ongoing monitoring of mutual investments — the most comprehensive list of direct investors included into the database. Our structural analyses of sectoral and regional FDI as it is reflected in CBR statistics show that distortions in official data are caused not only by ignoring the offshore factor, but also by using an incomplete investor sample. In this report, the FDI stock threshold value triggering inclusion into the MIM CIS Database was set at $3 million. As of the middle of 2016, there were 464 such projects. However, like in the past reports, the database also covers certain projects with FDI stock within the range from $1 million to $3 million (e.g., in the IT sector). This has made it possible to use the MIM CIS Database to perform more rigorous quantitative analyses of the structure of mutual investments in the CIS, particularly where such investments originate from the so-called small economies (such as Azerbaijan, Belarus, Georgia, etc.). Some projects’ FDI values were reduced to zero by the end of 2015, even though previously they...
had exceeded $1 million (possible reasons may include project completion or resale, or withdrawal of the investor).

This year, one of the novelties is the exclusion from quantitative parameter computations of projects featuring capital investment stock of less than $1 million. Such small investment projects are maintained in the database only for qualitative analysis purposes. Accordingly, from more than 1.2 thousand projects currently included into the MIM CIS Database, we have selected for our quantitative analyses a subset of 679 projects. This is for the purpose of more adequately accounting for the smaller deals, as projects with values of several thousands of dollars do not always make it into the MIM CIS Database. Suffice it to say, for example, that according to official statistics there are about 6.7 thousand companies with CIS equity participation operating in Russia (Rosstat, 2015), and approximately 3.2 thousand such companies operating in Belarus (Belstat, 2015).

In the course of our efforts to further improve the MIM CIS Database, we suggested certain indirect FDI assessment methods which may be used by central banks to make a rough estimate of capital investments in the absence of precise data provided by companies.

This report builds on previous research jointly conducted by RAS IMEMO and EDB Centre for Integration Studies. The report is divided into three parts. The first part provides a general description — an already traditional salient feature of all our reports — of mutual direct investments by CIS countries and Georgia. Like the year before, our FDI review focuses on the consequences of the crisis in Ukraine. Considerable attention is also paid to the role played by Azerbaijan in mutual direct capital investments in the CIS. In the second part, the authors for the first time supplement the usual scrutiny of direct capital investments by a review of mutual portfolio investments and long-term credits used to finance projects implemented in CIS countries. This new component of our monitoring will enable an in-depth inquiry into matters of corporate integration in the post-Soviet area. The third part of the report features a detailed review of mutual investments in the EAEU region.
1. Mutual Direct Investments in the CIS at the End of 2015

Monitoring of mutual direct investments by CIS countries and Georgia (MIM CIS) is an ongoing project of the EDB Centre for Integration Studies, in effect since the end of 2011. As in previous years, the MIM CIS Database includes all investment projects with post-Soviet area FDI originating from CIS countries and Georgia valued at more than $3 million. It also covers a number of smaller projects to gain a better understanding of mutual capital investments (especially those made by investors from smaller countries and in the services market segment). Quantitative parameters describing mutual investments originating from CIS countries and Georgia are computed for all projects where FDI stock exceeded $1 million during any observation year (while projects valued at several tens or hundreds of thousands of dollars are recorded only for the purpose of qualitative trend analysis).

An important advantage of our direct investment monitoring lies in the fact that it makes it possible to identify actual asset locations (i.e. track FDI channeled into CIS countries through offshore areas), which in many instances produces a more reliable picture than that provided, for example, by central banks.

A two-level sectoral classification comprising 15 sectors and more than 90 industries has been developed to record the sectoral FDI structure within the framework of two EDB projects — the MIM CIS project and the neighboring DIM-Eurasia project (EDB Centre for Integration Studies, 2015a). The classification is regularly updated as new investment projects are entered into the database. For example, in 2016 it was supplemented with two new industries (Health Care and Objects of Art) classified under Other Services, and one new industry (Motor Racing Infrastructure) classified under Transportation.

To examine the regional FDI structure in CIS countries, homogenous capital investments made by a company in different regions (other administrative or territorial units) are recorded as separate projects. For example, all petrol filling stations or network retail outlets of the same investor in the same region of Belarus or Kazakhstan are classified as one project. As a result, the MIM CIS Database contains records of more than 1.2 thousand projects, producing a detailed picture of the scope, dynamics and various structural parameters of mutual direct investments by CIS countries and Georgia in 2008–2015. At the same time, in this report our computations will cover only those projects where FDI stock exceeded $1 million during any one year. There are 679 such projects in the MIM CIS Database (excluding projects implemented in Abkhazia, South Ossetia, and Nagorno-Karabakh). Exclusion of more than 500 projects (including 426 projects with non-zero FDI at the end of 2015) reduced aggregate indicators for Belarusian FDI in CIS countries and Georgia only by $0.1–0.2 billion, and for Russian FDI by less than $0.1 billion.

In the course of our work designed to further improve the MIM CIS Database, we suggested certain indirect FDI assessment methods, which may be used by central banks
to make a rough estimate of capital investments in the absence of precise data provided by companies.

This relates primarily to assessing the scope of certain types of investments, for example, investments into petrol filling station networks, retail shops, or restaurants, where investors normally create many homogenous facilities, and where the number of investments is not properly reflected in corporate financial statements and mass media publications. In accordance with OECD recommendations, we assume that the value of all homogenous facilities is the same as the value of those few deals whose financials were actually disclosed. To illustrate this point, we will take a look at FDI involved in the construction of petrol filling stations. In post-Soviet countries, one petrol filling station costs $0.5–3 million (depending on its type and available infrastructure, for example, a retail shop) — a number that will most likely be deemed insignificant, whether in the context of financial statements published by oil majors or in mass media reports. However, according to the MIM CIS Database at the end of 2015, total mutual FDI into petrol filling station networks exceeded $1.5 billion (almost 3.7% of total mutual FDI stock originating from CIS countries and Georgia).

In addition to that, we proposed FDI stock assessment methods relying on the value of fixed assets owned by telecommunication companies and certain processing facilities, where rapid impairment of assets accompanied by massive reinvestment of profits soon renders acquisition cost figures all but irrelevant. This approach represents a departure from OECD recommendations, but at this juncture is appears to be optimal for post-Soviet countries, as it provides a rule-of-thumb measure for revaluation of earlier FDI.

In methodological terms, measurement of FDI in the banking sector is simpler than measurement of foreign assets owned by non-financial companies. Banks are traditionally more disciplined than non-financial companies when it comes to publication of corporate statements and disclosure of shareholder information. On the one hand, this enables an exact and accurate measurement of assets and their movement (based on charter capital amount); on the other hand, it becomes possible to identify assets owned by foreign minority shareholders. The key factor affecting the annual asset revaluation is the exchange rate of the national currency at the end of the period under review. The starting point in all calculations is the charter capital of a bank (in an environment characterized by volatility of currency exchange rates in most CIS countries, in 2014–2015 such revaluation resulted in impressive asset value adjustments).

1.1. General Description of the MIM CIS Database

At the end of 2015, information on non-zero mutual investment stock was available for 919 projects from a total of 1.2 thousand projects included into the MIM CIS Database. Only 5 projects featured $1+ billion stocks, with the number of projects within the $500–999 million and $100–499 million ranges standing at 7 and 77, respectively. If we look at the distribution of projects in the MIM CIS Database by amount of investment stock in 2008–2015, we see that a notable reduction of the number of projects with non-zero FDI (following its increase since 2008) started in 2013 (see Figure 1).
Nevertheless, the 2015 figures were still higher than those posted in 2008, with several exceptions. This relates primarily to extra-large projects. There were several reasons for this, including termination of projects (among other things, because of adverse economic conditions), their resale to national investors or third-country TNCs (with Russian FDI in the Crimea and Sevastopol representing a special case), and revaluation of assets (mostly due to devaluation of national currencies in several CIS countries).

Russian TNCs stand out among investors in large and extra-large projects. The sectoral structure of large and extra-large projects is quite diverse, although Oil and Gas naturally takes the lead. The Top Three includes Gazprom’s gas transportation subsidiary in Belarus and LUKOIL’s hydrocarbons production projects in Kazakhstan and Uzbekistan. They are followed (far behind) by projects in Finance, Ferrous Metals, Communication and IT, etc.

Even though smaller projects numerically dominate the MIM CIS Database, they usually have little, if any, effect on aggregate mutual FDI structural indicators. On the contrary, changes in several large projects (related both to building up new investments and impairment of previous investments) may provoke a drastic structural overhaul of the capital investment landscape. At the same time, over the entire observation period Russia has been able to maintain a dominant position both in terms of the number of projects, and in terms of the absolute mutual FDI value (see Table 1).

At the end of 2015, total mutual FDI originating from CIS countries and Georgia amounted to $42.4 billion. Sustainable growth of that indicator in 2009–2012 (from $36.9 billion to $57.2 billion) was replaced by a downward trend. In particular, by the end of 2015, CIS and Georgia FDI stock shrank by $2.2 billion, or by 5%.

Contraction of CIS mutual FDI stock in 2015 was caused by multiple factors: generally adverse economic conditions, aftermath of the Ukrainian crisis, and non-stop
revaluation of previous investments by companies, among other things, to reflect the weakening of national currencies (see Figure 2). Suffice it to say that in 2015 the nominal exchange rate of the Russian ruble against the US dollar dropped 1.3 times, that of the Ukrainian hryvnia 1.52 times, Belarusian ruble 1.56 times, Kazakh tenge 1.86 times, etc. Inasmuch as many mutual FDI was denominated in national currencies, that automatically reduced the value of capital investments expressed in US dollars. Arguably, in the absence of the 2015 asset revaluations, mutual direct investment stock originating in CIS countries would have remained the same, as there were no high-profile project terminations.

Russian investors accounted for 79.7% of total mutual FDI in the region, while Russia itself attracted 10.6% of total mutual FDI. For the purposes of our analysis, it is important to note that the role of Russian investors in CIS countries and Georgia has been declining. For example, in 2012, a record-breaking year when total mutual FDI stock reached $57.2 billion, Russia exported 82.6% and imported 11.2% of total FDI. Apparently, we are witnessing a gradual internationalization of business in CIS countries which previously lagged behind Russia; in addition, having established steady footprints in adjacent regions, Russian TNCs now oftentimes prefer to invest into third countries.

Kazakhstan is the second-largest participant in mutual investment flows, with 11.6% of exported mutual investments and 16.8% of imported mutual investments. Azerbaijan is also a notable FDI source (5% of total mutual FDI stock originating from CIS countries and Georgia), while Ukrainian and Belarusian FDI origination is rather modest. Overall, at the end of 2015, the Top Five accounted for 99.6% of total mutual FDI stock. Before B. Ivanishvili terminated his investment projects in Russia in early 2012, Georgia had also been a major source of capital investments.

Ukraine remains the largest mutual FDI recipient, albeit with a smaller share than before (20.2% of total FDI imports from CIS countries and Georgia at the end of 2015 vs. 32.1% at the end of 2012). However, by the end of 2015, Ukraine was almost overtaken...
1. MUTUAL DIRECT INVESTMENTS IN THE CIS AT THE END OF 2015

by Belarus (19.8% of total FDI imports from CIS countries and Georgia). Generally, the percentage share of the Recipient Top Five is considerably less than that of the Investor Top Five — 76%. Turkmenistan is the only state which is virtually completely excluded from mutual FDI flows.

Of all CIS countries and Georgia, only Russia and Azerbaijan were net capital exporters. Moreover, it is noteworthy that Azerbaijan has made the most direct investments into Georgia of all CIS countries (according to official statistics). It is due to Azerbaijani capital investments in 2015 that CIS countries overtook EU countries in terms of total FDI into the Georgian economy. With the exception of Kazakhstan, Ukraine, and (to some extent) Belarus and Georgia, post-Soviet countries acted only as capital importers, which is basically consistent with the investment development pathway theory postulating that the FDI export/import balance is linked to the level of economic development of a country (Narula and Dunning, 2010). Incidentally, countries with powerful commodity TNCs tend to export more capital.

For many country pairs, the scope of mutual FDI in the post-Soviet area, based on the information contained in the MIM CIS Database, is noticeably different from that shown by official national and international statistics. A good illustration of that point is provided by cross-country FDI geographical structure benchmarking performed by the IMF (2015), primarily using national statistical data on the value of imported FDI stock (see Table 2). First, a sizeable chunk of mutual FDI is channeled through Cyprus and other offshore zones. This is exemplified by Russian FDI in Kazakhstan, Kyrgyzstan and Ukraine which are more fully recorded in the MIM CIS Database. Second, the MIM CIS Database does not record small projects, which is particularly relevant

<table>
<thead>
<tr>
<th>FDI Recipient</th>
<th>Investor Countries FDI Stock, $ billion</th>
<th>All 12 Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Russia</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>0.76</td>
<td>0.00</td>
</tr>
<tr>
<td>Armenia</td>
<td>3.06</td>
<td>0.01</td>
</tr>
<tr>
<td>Belarus</td>
<td>8.30</td>
<td>0.05</td>
</tr>
<tr>
<td>Georgia</td>
<td>0.58</td>
<td>0.47</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>7.10</td>
<td>X</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>0.81</td>
<td>0.70</td>
</tr>
<tr>
<td>Moldova</td>
<td>0.43</td>
<td>–</td>
</tr>
<tr>
<td>Russia</td>
<td>X</td>
<td>3.37</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>1.06</td>
<td>0.08</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0.02</td>
<td>–</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>3.55</td>
<td>0.08</td>
</tr>
<tr>
<td>Ukraine</td>
<td>8.18</td>
<td>0.16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33.84</strong></td>
<td><strong>4.92</strong></td>
</tr>
</tbody>
</table>

Table 1. Mutual FDI Scope at the End of 2015 (MIM CIS Data)
for certain smaller countries (see, e.g., Georgian FDI in Azerbaijan and Belarusian FDI in Ukraine). Third, there are differences in FDI estimates for extra-large projects. The largest discrepancies between MIM CIS data and official statistics are registered for Russia, the key source of mutual FDI in the post-Soviet area (see Table 3). In its official statistical publications, the CBR makes the most significant understatements concerning investment presence of Russian businesses in Ukraine (the 2015 year-end difference is $6 billion, a 4-fold discrepancy), Kazakhstan and Belarus (the difference is $4.7 billion for each country, making it a 3-fold and 2-fold discrepancy, respectively). In the case of Uzbekistan, Azerbaijan, and Kyrgyzstan, the absolute difference is smaller, but in qualitative terms, the presentation by the CBR of the real situation with Russian investment presence is even worse. It should be noted that Azerbaijani and Belarusian statistics are closer to MIM CIS data. In the first case, only the recipient country makes an express record of investments made by LUKOIL through the offshore entity known as LUKOIL Overseas. In the second case, there are differences in the valuation of Gazprom Transgaz Belarus — the CBR records the impaired value, while Belstat and MIM CIS rely on the initial acquisition value. Moreover, only MIM CIS “catches” data on Russian and Kazakh capital investments into Kyrgyz telecommunication companies, as both VimpelCom and Verny Capital operate only through offshore entities.
Based on the information contained in the MIM CIS Database that can be compared with UNCTAD data published in June 2016 (UNCTAD, 2016, p. A10), we come to the conclusion that at the end of 2015 the largest proportion of Russian companies in total FDI stock of all the countries was in Armenia (72%), Tajikistan (50%), Belarus (46%), and Uzbekistan (36%). Turkmenistan (<1%), Azerbaijan (3.4%), and Georgia (4.6%) were on the opposite end of the continuum. At the same time, the share of Azerbaijan in FDI stock in Georgia amounted to almost 15%.

The figures for key Russian FDI recipients in the region (in absolute terms) — Kazakhstan and Ukraine — were in the middle of the range: Russia’s share in total FDI stock amounted to only 6% and 13%, respectively. In Kyrgyzstan the share of Russian FDI was 21%, while Kazakh FDI accounted for 18%. In Moldova the share of Russian FDI was 12% vs. 2.2% for Ukraine, another important source of FDI in that country.

In terms of sectoral structure, the leading sector for mutual direct investments originating from CIS countries and Georgia was Oil and Gas (see Figure 3). The closest sectors, with a sizeable lag, were Finance, Communication and IT, and Transportation. Transportation FDI stock was relatively stable, while in Oil and Gas and Finance vibrant growth was replaced in 2013–2014 by a recession, although 2015 year-end figures still exceeded 2008 levels by 53% and 39%, respectively. The most noticeable decrease over the last several years was registered in Communication and IT, with the 2015 year-end figure only slightly higher than half the 2008 level.

### Table 3. Russian FDI Stock in CIS Countries and Georgia in 2009–2015 (Comparison of CBR and MIM CIS Data)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year-End Data, $ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIM CIS</td>
<td></td>
</tr>
<tr>
<td>MIM CIS</td>
<td></td>
</tr>
<tr>
<td>CBR</td>
<td></td>
</tr>
<tr>
<td>MIM CIS</td>
<td></td>
</tr>
<tr>
<td>CBR</td>
<td></td>
</tr>
<tr>
<td>Belarus</td>
<td>4.5</td>
</tr>
<tr>
<td>Ukraine</td>
<td>12.6</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>9.6</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>2.9</td>
</tr>
<tr>
<td>Armenia</td>
<td>2.0</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>0.7</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>0.4</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>1.2</td>
</tr>
<tr>
<td>Moldova</td>
<td>0.5</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0.0</td>
</tr>
<tr>
<td>Total CIS</td>
<td>34.5</td>
</tr>
<tr>
<td>Georgia</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Note: some of the previously published indicators have been adjusted following a review of the latest corporate financial statements. Sources: MIM CIS and CBR (2016b).
### Figure 3. Sectoral Structure of CIS and Georgian Mutual FDI Stock at the End of 2015

![Sectoral Structure of CIS and Georgian Mutual FDI Stock at the End of 2015](image)

### Table 4. Top 15 Investor Companies in the MIM CIS Database at the End of 2015

<table>
<thead>
<tr>
<th>Company / Investor</th>
<th>Country</th>
<th>Main Recipient Sector of the Company’s FDI</th>
<th>FDI Stock, $ billion</th>
<th>Countries in the Region with Active Subsidiaries (where FDI exceeds $1 million)</th>
<th>Main Recipient Country in the CIS</th>
<th>Share of That Country, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazprom</td>
<td>Russia</td>
<td>Oil and Gas</td>
<td>7.36</td>
<td>7</td>
<td>Belarus</td>
<td>70</td>
</tr>
<tr>
<td>LUKOIL</td>
<td>Russia</td>
<td>Oil and Gas</td>
<td>6.27</td>
<td>6</td>
<td>Kazakhstan</td>
<td>48</td>
</tr>
<tr>
<td>MTS</td>
<td>Russia</td>
<td>Communication and IT</td>
<td>1.75</td>
<td>5</td>
<td>Belarus</td>
<td>45</td>
</tr>
<tr>
<td>VimpelCom</td>
<td>Russia</td>
<td>Communication and IT</td>
<td>1.52</td>
<td>7</td>
<td>Ukraine</td>
<td>26</td>
</tr>
<tr>
<td>VTB Group</td>
<td>Russia</td>
<td>Finance</td>
<td>1.35</td>
<td>6</td>
<td>Ukraine</td>
<td>78</td>
</tr>
<tr>
<td>SOCAR</td>
<td>Azerbaijan</td>
<td>Oil and Gas</td>
<td>1.12</td>
<td>2</td>
<td>Georgia</td>
<td>85</td>
</tr>
<tr>
<td>Meridian Capital</td>
<td>Kazakhstan</td>
<td>Transportation</td>
<td>1.04</td>
<td>3</td>
<td>Russia</td>
<td>90</td>
</tr>
<tr>
<td>VS Energy</td>
<td>Russia</td>
<td>Infrastructure Networks</td>
<td>1.03</td>
<td>1</td>
<td>Ukraine</td>
<td>100</td>
</tr>
<tr>
<td>Alexander Katunin and Others</td>
<td>Russia</td>
<td>Ferrous Metals</td>
<td>1.00</td>
<td>1</td>
<td>Ukraine</td>
<td>100</td>
</tr>
<tr>
<td>Verny Capital</td>
<td>Kazakhstan</td>
<td>Tourism</td>
<td>0.90</td>
<td>2</td>
<td>Russia</td>
<td>78</td>
</tr>
<tr>
<td>Ivolga-Holding</td>
<td>Kazakhstan</td>
<td>Agriculture and Food Products</td>
<td>0.87</td>
<td>1</td>
<td>Russia</td>
<td>100</td>
</tr>
<tr>
<td>INTER RAO UES</td>
<td>Russia</td>
<td>Infrastructure Networks</td>
<td>0.84</td>
<td>5</td>
<td>Tajikistan</td>
<td>65</td>
</tr>
<tr>
<td>Atomenergoprom</td>
<td>Russia</td>
<td>Non-Ferrous Metals</td>
<td>0.68</td>
<td>3</td>
<td>Kazakhstan</td>
<td>81</td>
</tr>
<tr>
<td>Sberbank</td>
<td>Russia</td>
<td>Finance</td>
<td>0.68</td>
<td>3</td>
<td>Ukraine</td>
<td>53</td>
</tr>
<tr>
<td>Energy Standard</td>
<td>Russia</td>
<td>Infrastructure Networks</td>
<td>0.60</td>
<td>1</td>
<td>Ukraine</td>
<td>100</td>
</tr>
</tbody>
</table>
Despite the large number of projects in the MIM CIS Database, Russia’s high performance indicators are attributable to just a few companies. This is a manifestation of the general Russian business trans-nationalization trend, where the largest companies prove to be the most sustainable for a variety of reasons ranging from excessive monopolization of the Soviet economy and preferred privatization model to the unique model of relations between business and the government. It is Russian TNCs that dominate among other countries’ TNCs in terms of capital exportation and investment geography (see Table 4).

At the end of 2015, the Russian Top Five — Gazprom, LUKOIL, MTS, VimpelCom, and VTB Group — accounted, in the aggregate, for $18.1 billion, or 43% of total CIS and Georgia FDI stock (and almost 54% of total Russian FDI in the post-Soviet area). Those companies — and INTER RAO UES — also have the most diversified business geography in the region. On the whole, the 15 leading investors, including three business groups from Kazakhstan and one company from Azerbaijan, accounted for $27 billion, or more than 63% of total CIS and Georgia mutual FDI. Three Russian investors made it into the top charts exclusively due to their investments in Ukraine. On the other hand, the Kazakh Ivolga-Holding exported FDI only to Russia.

1.2. Ukrainian Economy Retains Investors from CIS Countries

The unrelenting political and economic instability in Ukraine continues to stifle mutual FDI flows. According to official Ukrainian statistics, in 2015 investments both from and into Ukraine subsided. The same trends were observed in the course of the current monitoring period. Ukraine continues to lose its investment positions in the CIS, even though the World Bank Doing Business data indicate that over the last several years Ukraine has been steadily improving its rankings, and that, as a result of that, in 2015 the country went up 4 notches to take the 83rd place in the global rating (World Bank, 2015). Ukraine made this progress due to a notable improvement of its Starting a Business parameters.

On the whole, in 2015 Ukrainian FDI stock originating from post-Soviet countries declined by 5% (against the background of a similar downturn of other mutual FDI in CIS countries and Georgia). The maximum relative decline of investments in Ukraine in 2015 was registered for Kazakhstan (a drop by almost 15% vs. 5.4% in the case of Russian FDI in Ukraine). Interestingly, the current decline figures are much lower than in 2014, when Ukrainian FDI stock originating from post-Soviet countries almost halved (plummeting by 48% on the average, and by 49% in the case of Russian FDI). This may indicate that the situation may have normalized to some extent, and the “peak of the crisis” may have passed. This improvement is further evidenced by the positive rate of growth of Azerbaijani investments into the Ukrainian economy. In 2014 they increased by 20%, and in 2015 by another 26%; it should be noted, though, that in absolute terms over the two years FDI has gone up merely by $61 million.

Ukraine may have braved the worst of the crisis, but a number of factors suppressing the inflow of capital investments into the country persisted throughout 2015. In particular,
some companies continue to delay publication of their financial statements which, taking into consideration the current political and economic situation, prevents adequate assessment of investment flows based on information from alternative sources. By the same token, there remain many investment projects which defy proper valuation, while it is rather difficult to measure reliability of available information. Valuation of Russian investments is still affected by the country of origin of relevant assets: in real-life transactions Russian assets are valued below market because Russian companies operating in the Ukrainian market are assumed to be “deadlocked.” Finally, the consequences of military hostilities remain undervalued: not all companies have publicly estimated their losses — which are actually quite substantial — resulting from their production facilities standing idle or having been partially destroyed. For example, Gloria Jeans stated that losses caused by interruption of operations at its Ukrainian factories amounted to $27 million, and another $21 million were invested into restoration of production facilities in the Lugansk Region (Expert Yug, 2015).

In terms of sectoral affiliation, disposal or termination of Ukrainian assets affected primarily those sectors that have the highest “investor appeal” — Trade, Communication and IT, and Chemical. Investors withdrew from other sectors too, being mindful of the woes plaguing the worst-affected industries, namely, Oil and Gas and Transportation. The bulk of FDI stock lost in Ukraine upon disposal/termination of assets is represented by three deals involving Russian companies. Ukrainian partners acquired a 29% stake in the Inter television channel, UTair got rid of its $51 million Ukrainian air transport unit (it was bought by the Turkish group Anex Tour), and MTS Ukraine sold a chunk of its business to the Ukrainian operator Vega.

In 2015 investors were leaving Ukraine not only voluntarily, but some of them were “squeezed out” of the country, as their assets had been nationalized. A major loss was inflicted by nationalization of the Zaporozhye Aluminum Smelter owned by Rusal, but the company still retains the title to the Ukrainian Aluminum Refinery. Initial investments in the asset amounted to $70 million. At the time of preparation of this report, the company was contesting in court the decision rendered by the Ukrainian authorities. In addition to that, Transneft lost its $150 million pipeline infrastructure, and the Shpola Spare Parts Factory previously owned by Metrovagonmash was nationalized. These examples point to the conclusion that so far, situations where primarily Russian investors are driven out of Ukraine by non-market methods have caused more financial losses than would have been the case if their withdrawal had been brought about by the operation of objective factors. It is worthwhile noting that it is mostly large assets that are targeted for nationalization. However, this process will hardly assume massive scope: the general weakness of the economy, still heavily dependent on the Russian market, and the losses occurring when assets are confiscated from their longstanding owners preclude wider spread of nationalization.

Based on 2015 results, we can arrive at the conclusion that some foreign investors have managed to adapt to the new political and economic realities in Ukraine. Companies from CIS countries which are interested in assuring a long-term presence in the Ukrainian market have started to invest in local assets both by opening new facilities and by building up the existing production capacity. In absolute figures, this process is relatively
insignificant, but it is symptomatic of the trends currently sculpting investment activity in Ukraine. So far investors have been focusing on segments which are the most attractive for FDI originating from the CIS: Wholesale and Retail Trade, Agriculture and Food Products, Tourism, Communication and IT. Investments were made by companies from Azerbaijan, Belarus, and Russia. We can recall, by way of example, a high-profile deal where VimpelCom acquired a 15-year 3G license for $113 million (which did not prevent further impairment of long-term assets owned by that Russian investor in Ukraine in 2015). The Azerbaijani SOCAR, with its ever-growing network of petrol filling stations covering 11 regions of the country, is also hatching long-term plans for the Ukrainian market.

The Ukrainian banking sector deserves special mention, as in 2015 it received a substantial capital infusion. Russian banks were among the most generous contributors, with some of them boosting charter capitals of their Ukrainian subsidiaries several-fold. Thus, Sberbank of Russia increased the charter capital of its Ukrainian subsidiary 2.5-fold, and VTB 4.7-fold. It is not incidental that both of those financial TNCs made it back into the list of Top 15 Mutual Investors in the CIS which they left in 2014 (EDB Centre for Integration Studies, 2015b). This fact was reflected in official Ukrainian statistical publications which noted the growth of Russian investments in Ukraine in 2015. Even though over the course of the year, total FDI stock in Ukraine originating from all countries of the world went down by 5%, during the same period of time Russian FDI stock soared by 25% (approximately to the level of 2012). On the other hand, Cyprus FDI (which in most cases can be traced back to Russia) continued to dwindle (State Statistical Service of Ukraine, 2016).

The regional structure of direct investments remains stable: most of them are concentrated in Kiev and the Kiev Region, closely followed by the Dnepropetrovsk Region, one of the most economically developed areas of Ukraine (see Table 5). In line with the trend that has emerged over the last several years, the share of the central region has been gradually shrinking, while the Dnepropetrovsk Region, on the contrary, has been gaining economic weight. Investments from Russia, although represented in all Ukrainian regions, have the highest concentration in the eastern regions of the country which are characterized by geographical proximity to Russia and often relatively higher levels of economic development. Conversely, investments from the other CIS countries tend to gravitate towards the central and western regions, usually with a medium level of economic development. Some Ukrainian regions have no investments from other CIS countries at all.

The trends that have emerged over the last two years indicate that in the foreseeable future, investments made in Ukraine by companies from CIS countries will be marred by instability driven by both political and economic factors. We are positive that over the short term most companies are likely to assume a wait-and-see posture, which does not exclude the possibility that some investors (especially Russian investors) will discontinue their Ukrainian operations for political reasons, as they did in 2015. In addition to that, the overall investment landscape will vary depending on the target sector of the Ukrainian economy. The current situation will probably remain more or less unchanged, subject to the trend where FDI stock originating from CIS countries will gradually decline.
In 2015 Ukraine, as an investor into CIS countries, continued to lose ground as fast as it had done the year before. Total Ukrainian FDI stock shriveled by 16.2% in 2014, and then by another 15.5% in 2015. The maximum decrease of Ukrainian capital investments in relative terms was registered in Belarus, where their value dropped threefold. The maximum absolute decline was noted in Russia, where Ukrainian capital had enjoyed a traditionally strong presence: in 2015 alone, investments shrank by $144 million. The only CIS country where Ukrainian capital investments actually increased is Moldova.

The main drivers of the years-long decay of Ukrainian corporate investment activity in the CIS are the complex economic situation in Ukraine, and the unstable financial situation of Ukrainian companies. In these conditions, Ukrainian investors — potentially capable of investing abroad — focus on domestic assets which they perceive as playing the key role in their business: they seek to keep hold of the national market, and in doing so they temporarily neglect foreign markets. There also remains another persistent problem — relations with Russia which is the largest single recipient of Ukrainian FDI (Russia accumulates about 85% of FDI flows from Ukraine into CIS countries): some Ukrainian companies are experiencing difficulties in the Russian Federation. Because
of all that, Ukrainian investors have been trying to get rid of “chancy” assets in external markets, especially in Russia.

Inasmuch as Ukrainian investments have a narrow sectoral structure, asset sale affected only two sectors: Wholesale and Retail Trade and Mechanical Engineering. Belarus is a good example of that trend: in 2015 Ukrainian entities owned by N. Lagun lost the Rodnaya Storona retail network, valued at $30 million. But the worst contraction of investment activity occurred in Russia — and it continued in the beginning of 2016.

Ukraine’s Kernel sold two oil extraction plants in Stavropol and Krasnodar Provinces. In 2016 the Roshen Confectionery in Lipetsk was hit with a new round of tax claims. As a result, at the time of preparation of this report, the plant was put up for sale for $100 million (originally Ukrainian investors had hoped to realize the asset for $200 million). It is also quite possible that Donbass Fuel and Energy Company will sell its coal-mining assets in the Rostov Region where it had invested more than $100 million over the last several years. If Ukrainian companies go through with these plans, Ukraine’s investment positions in the CIS will continue to deteriorate, as nothing can offset such disastrous losses, at least for the time being.

The scale of new acquisitions and investments into existing assets by Ukrainian investors in 2015 proved to be rather modest. Amounts invested by all but a few Ukrainian companies did not exceed several million dollars. Capital investments were mostly funneled into sectors traditionally targeted by Ukrainian investors (Agriculture and Food Products, Wholesale and Retail Trade), but there were also other destinations (Oil and Gas, Ferrous Metals). Most Ukrainian investment projects were implemented in Russia, Moldova, and Belarus. For example, at the end of 2015 Global Spirits acquired a liquor plant in Moscow Region. Ukrainian trade networks Fourchette and Kviza-Trade invested several million dollars into expansion of their franchises in Moldova.

The previously much debated issue of migration of Ukrainian enterprises into Russia and Belarus apparently died out by the end of 2015 to the beginning of 2016. Some of the relocated assets continue to operate, while a number of announced investment projects have failed to materialize. For example, Ukrainian Poly-Pack has not launched the RUB 1,530 million food-packaging production line in the Voronezh Region. In the beginning of 2016, the Ukrainian company said it would temporarily drop the project.

Therefore, the trends currently shaping the Ukrainian political and economic landscape support the assumption that in the immediate future, Ukrainian investment stock will continue to decline. In geographical terms, that process will be most pronounced in Russia, where asset sales will continue, with more investment projects and production operations suspended. In structural terms, sectors most closely linked to the government, such as Mechanical Engineering and Oil and Gas, will be hit the hardest. It will be very difficult for Ukrainian companies to find an adequate replacement for the Russian market within the CIS. On the other hand, we are quite positive that Ukrainian capital investments into CIS countries will not collapse — even though the Ukrainian crisis has undoubtedly contributed to the surge in the number of project terminations which affected aggregated CIS data (see Figure 4).
1.3. Azerbaijan as a Net Exporter of FDI into the CIS

Azerbaijan has a special place in the post-Soviet mutual investments area. The economy of that country (as is the Russian economy) is a net exporter of direct capital investments into CIS countries and Georgia. Azerbaijan investments into those countries demonstrate sustainable growth. Exportation of capital did not cease either in 2009, when most countries of the world experienced an economic slump, or in 2015, when almost all CIS countries faced recession or serious deceleration of economic growth. In 2015 Azerbaijani direct investment stock in CIS countries and Georgia exceeded $2.1 billion.

Export of Azerbaijani FDI is quite diversified. At the same time, almost all investment stock in the post-Soviet area is localized in two countries, namely, Georgia (in 2015, it accounted for 88.1% of total outward FDI into CIS countries and Georgia) and Ukraine (8.4%).

The main driver of stable and rapid growth of Azerbaijani investments into Georgia is the transit position of that country between Azerbaijan and Turkey, its key economic partner. It is not incidental that 64% of Azerbaijani investment stock in Georgia is concentrated in the Transportation sector, including some of the most expensive of the ongoing CIS projects financed with Azerbaijani capital. One such project is the construction of a section of the Baku — Tbilisi — Kars transport corridor with the funding allocated by CJSC Azerbaijani Railways and the State Petroleum Fund of Azerbaijan. Another project represents investments made by the State Oil Company of Azerbaijan...
Republic (SOCAR) in the Kulevi oil terminal, Azerbaijan’s gateway into the Black Sea. In addition to port infrastructure facilities, SOCAR owns Oil and Gas assets, such as gas networks and distribution stations that it received after the acquisition in 2012 of Itera-Georgia, and a large network of filling stations (including more than 100 petrol stations and 26 gas stations). In general, such a sectoral structure is noticeably different from aggregate CIS-wide indicators which are largely dependent on the structure of Russian FDI (see Figure 3).

Azerbaijani business does not limit its presence to the strategic sectors of the Georgian economy mentioned above. Since the beginning of the 2010s, private companies have been boosting their investments in a wide gamut of sectors, including Agriculture and Food Products, Wholesale and Retail Trade, Tourism, establishment of private medical facilities, and the production of furniture. This testifies to the existence of a second critical investment driver — the ambition of Azerbaijani companies to move their operations (fully or partially) to neighboring countries which, in their opinion, have a more favorable business environment. The key reasons most often mentioned in mass media reports include inferior quality of national economic institutions, lack of confidence in the national currency, and bleak economic prospects of Azerbaijan if oil and gas prices take the wrong turn. On the other hand, some investment projects display all telltale signs of ordinary business expansion into foreign countries. For example, the Azerbaijani Karat-Holding has become the undisputed leader of the Georgian flour market (with a 70% share), having purchased, over a period of 2 years, all major flour mills in the country.

In addition to that, Azerbaijani investors have created several commercial banks in Georgia. The largest of Georgia’s existing banks with Azerbaijani equity participation is Pasha Bank-Georgia whose charter capital at the end of 2015 amounted to $43 million. It should be noted though, that, according to the National Bank of Georgia, such banks report minimal profits (see also: https://www.nbg.gov.ge/index.php?m=404). Some experts speculate that the banks may have been established to simplify settlements performed by Azerbaijani companies operating in Georgia.

Ukraine’s second place in the list of recipients of Azerbaijani FDI is attributable primarily to SOCAR investments in a network of 56 petrol filling stations covering 11 Ukrainian regions. A more substantial presence of Azerbaijani capital in Ukraine is prevented by the deep recession and unstable political situation in that country.

The value of Azerbaijani projects in Russia included in the MIM CIS is merely $54 million, much less than the $1 billion figure often quoted by the mass media (Region Plus, 2014). MIM CIS data are consistent with the information provided by the CBR ($139 million of total direct investment stock in accordance with the assets/liabilities measurement method, and $67 million excluding debt instruments, i.e. intra-corporate TNC credits which are also classified as FDI). This paradox can be explained by the fact that Azerbaijani experts sometimes overstate the amount of FDI by including announced deals which are ultimately not completed for various reasons, and construction company projects which are implemented on the basis of contract agreements (and may be financed either with proprietary funds or with cash provided by the customers). Be that as it may, Azerbaijani business has fair prospects of expanding its presence in Russia,
as evidenced by the large number of operating enterprises fully or partially controlled by Azerbaijani nationals. Besides, companies from this country are apparently willing to invest into remote Russian regions — not only into Dagestan which benefits from the “neighbor effect”, but also into constituent entities of the Russian Federation which generally enjoy little (if any) investor attention, such as the Republic of Tyva, where Benkons Group is heavily (by local standards) investing into construction and development projects. Similar trends can be observed in another geographically proximal country — the Republic of Kazakhstan, where, according to data from various sources, the number of Azerbaijani firms (mostly small businesses) ranges from 300 to 700.

Future investment cooperation between Azerbaijan on the one hand and CIS countries and Georgia on the other hand will depend on a number of factors. The most critical of those factors is the rate of economic development of the state in an inclement external environment. Another important factor which may affect the level of investment activity is the possible change in existing legislation introducing more rigorous currency controls and regulations. If the negative trends that we have observed over the last several years persist, the growth of Azerbaijani investment stock in post-Soviet countries may slow down.

Azerbaijani FDI stock originating from CIS countries and Georgia reached its peak value in 2011, when according to MIM CIS it stood at $1.4 billion, or 15% of the country’s total direct investment stock (according to UNCTAD statistics, $9.1 billion). Over the last several years, this stock has been gradually melting away; in 2015, that process accelerated on the back of devaluation of the Azerbaijani currency, manat. By the end of last year, Azerbaijani FDI stock originating from CIS countries and Georgia went down to $0.78 billion (while the country’s total stock originating from all countries of the world exceeded $22 billion). In other words, the gap between outgoing and incoming investment flows was almost threefold.

Out of all CIS countries investing in the Azerbaijani economy, Russia is the absolute leader with 98% of all FDI originating from that region. As for the sectoral structure of Russian investments, Oil and Gas clearly dominates with almost 85% of the total. The largest projects focus on production of crude oil and natural gas. Thus, LUKOIL owns a 10% stake in the operating consortium for the development of the Shah Deniz gas condensate field in the Azerbaijani sector of the Caspian Sea. It should be remembered, though, that the book value of that asset varies greatly from year to year depending on the current stage of implementation of the project. Thus, while in 2013 it was merely $106 million, in 2015, at the second stage of implementation of the Production Sharing Agreement, it surged to $305 million. Beside LUKOIL, development of oil fields (Zykh-Govsany, Binagadi, etc.) is financed by the Russian entrepreneur M. Gutseriyev and a group of companies under his control.

The second position in terms of investment stock (about 8% of total FDI originating from Russia) is held by Wholesale and Retail Trade, with LUKOIL, owner of a network of 50 filling stations, being the chief investor. Finally, the third position (5.5% of total FDI originating from Russia) is held by Finance. Here the largest investors list is topped by VTB (with an Azerbaijani subsidiary operating under the same name) and Uralsib
(one of Nikoil Bank co-owners). There are other sectors with Russian capital presence, such as Construction and Communication and IT, but total investments in each such sector do not exceed $5 million.

Investments originating from other CIS countries and Georgia are insignificant, and represented mostly by small projects with values below the mandatory minimum threshold for inclusion into the database. Thus, out of the six identified projects with Belarus capital participation, only one (a JV established by Minsk Tractor Plant and Ganja Auto Plant) can be classified as medium-sized, while the remaining five projects are distributing companies which were created to support supplies of Belarusian products to Azerbaijan, and do not require any substantial financial outlays.

An analysis of the geographical structure of direct investments reveals the absence of large-scale projects implemented by Kazakh companies. Meanwhile, among CIS countries Kazakhstan is the second-largest (after Russia) contributor of direct investment stock in the post-Soviet area. The only notable Kazakh project (Baku Grain Terminal launched in 2007) was designed to stabilize exports of Kazakh grain to Azerbaijan. Despite the geographical proximity of the two countries, Kazakh banks failed to establish subsidiaries in Azerbaijan during the period of explosive growth of the financial sector (prior the 2008 crisis), preferring to invest into more distant CIS countries.

Another unique feature of the Azerbaijani investment landscape is the absence among the largest investors of ethnic Azerbaijanis — citizens of Russia or other CIS countries (with one notable exception, namely, V. Alekperov, one of the main co-owners of LUKOIL). Apparently, Azerbaijan is not using the Azerbaijani diaspora as a source of FDI.

We project that investments into Azerbaijan will be increasingly affected by adverse factors related both to internal economic developments and the escalating scarcity of resources available to CIS countries to finance direct investments. However, over the next several years, FDI stock may go up in absolute terms due to continued implementation of the costly Shah Deniz project (in August 2015, LUKOIL borrowed $1 billion for 12 years to assure completion of that project).
2. Mutual Portfolio Investments and Long-Term Loans in CIS Countries

2.1. Monitoring Methodology and Overview of the Current Situation

The scope of mutual portfolio investments in post-Soviet countries is by an order of magnitude smaller than the scope of mutual direct capital investments. Available IMF statistical data derived from official information provided by individual countries show that by the end of June 2015 mutual portfolio investments by CIS countries failed to breach the $1 billion ceiling. According to our estimates, those capital investments amounted to about $3 billion (with considerable fluctuations from year to year).

The nature of portfolio capital investments (where the investor seeks profitability and reliability rather than control) explains why post-Soviet investors prefer developed countries. For example, according to the IMF, out of almost $72 billion of Kazakh portfolio investment stock abroad, Russia accounted for only $186 million (no portfolio investments were identified in the other CIS countries). At the same time, Kazakh portfolio investors channeled $40.9 billion into the USA, $4.6 billion into the United Kingdom, $3.3 billion into Germany, $3.2 billion into France, etc. (IMF, 2016). According to official statistics, CIS partners are regarded as relatively attractive only by Belarus portfolio investors — Russia accounted for $66 million out of a total of $155 million of Belarusian portfolio investment stock abroad.

It should be remembered that portfolio investors — similarly to direct investors — can penetrate post-Soviet markets through offshore areas and other “trans-shipping destinations.” For example, according to IMF statistics, out of $61.7 billion of Russian portfolio investment stock abroad, Luxembourg accounted for $20.5 billion, Ireland for $18.8 billion, Cyprus for almost $4 billion, the Netherlands for $3.9 billion, etc. Incidentally, information about Russian portfolio investments, e.g., in Kazakhstan is not disclosed for confidentiality reasons. The assumption concerning the use of third countries is indirectly supported by statistical data on imported portfolio investments. Thus, out of $950 million of total foreign portfolio investment stock in Armenia as at the end of June 2015, only $236 million originated from the USA, while Luxembourg’s contribution was $367 million. In the neighboring Azerbaijan and Georgia, out of $3,240 million and $2,299 million of total portfolio investment stock, respectively, the USA accounted for $854 million and $546 million, respectively, and Luxembourg for $1,006 million and $761 million, respectively. The situation in Ukraine and Belarus is similar — out of $8,651 million and $861 million of total portfolio investment stock, respectively, the USA accounted for $4,800 million and $294 million, respectively, and Luxembourg for $2,301 million and $298 million, respectively. In Tajikistan, Luxembourg accounted for $148 million out of $152 million of total portfolio investment stock, and in Kyrgyzstan — for $141 million out of $204 million (IMF, 2016).
Based on official statistical data, the following countries belong to the group of insignificant recipients of foreign portfolio investments: Moldova ($22 million), Uzbekistan ($17 million), and Turkmenistan ($11 million from the United Kingdom, data for other countries were not available). Quite naturally, the largest recipient of portfolio investments in the post-Soviet area is Russia ($118.8 billion), followed with a massive gap, by Kazakhstan ($13.7 billion).

The fact that official statistical data are clearly incomplete (especially in terms of determination of actual locations of portfolio investors) has prompted us to examine mutual portfolio investments of CIS countries within the framework of a special MIM CIS research project. Unfortunately, very few methods employed to analyze direct investments can be adapted to collecting and processing data on portfolio investments. Preliminary testing of various methods of retrieval of information on mutual portfolio investments in CIS countries and Georgia showed that it would be very difficult to attain the same depth of analysis as in the case of mutual FDI.

According to the structure of international investment position (which is based on the balance of payments statistics), foreign portfolio investments are divided into equity participations, units/shares of investment funds, and debt securities. The methodology that we use to collect data and populate the database on mutual portfolio investments made by CIS countries relies largely on proven and well-tested algorithms and methods underpinning the process of populating the mutual FDI database. As with direct investments, initial data are harvested by several experts from corporate financial statements, mass media publications, and other sources of information. At the next stage, all collected data are compiled in a single database which complements the MIM CIS Database. This is followed by verification of transactions, among other things, for possible gaps which may be identified by browsing through official statistics on mutual portfolio investments.

The main sources of information on portfolio investments are web sites maintained by companies and various specialized funds. Within the framework of the project, we monitored portfolio investments made by public and private sovereign and pension funds.

Sovereign funds have not been established in all CIS countries, and they normally do not act as large portfolio investors in the region under review, preferring to finance large-scale infrastructural projects with long payback periods in their home countries. Uncommitted funds are placed on deposit with national central banks or invested into liquid and reliable foreign securities circulating in foreign stock markets, usually into debt obligations of foreign states, primarily the USA.

Russia has the National Wealth Fund (NWF) and the Reserve Fund. The bulk of the Reserve Fund resources, denominated in various currencies, is placed in special accounts with the CBR, but there also exists a component represented by investments into government debt securities of the USA and some other developed countries (the list of such countries is expressly stipulated by applicable laws and regulations). As of January 1, 2016, NWF assets were allocated as follows: uncommitted funds on accounts with the CBR — 67.6%; bank deposits (VEB, VTB, Gazprombank) — 15.6%;
preferred shares of Russian Railways, Russian Agricultural Bank, VTB, and certain other major national issuers — 7.4%; bonds of Russian issuers secured with future revenues of infrastructural projects — 5.2%; and Ukrainian Eurobonds ($3 billion) — 4.2%. NWF funds may be used to acquire investment-grade corporate securities of foreign issuers and sub-investment-grade corporate securities of Russian issuers. Another Russian sovereign fund, the Russian Direct Investment Fund (RDIF), is exclusively involved in financing projects implemented in the territory of the Russian Federation, including projects with foreign participation. To enable implementation of large-scale projects of such kind, it established partner relations with sovereign funds of Saudi Arabia, Abu Dhabi, and China. The fund has virtually no assets in the other CIS countries. RDIF operations can be monitored only via mass media publications; being a wholly-owned VEB subsidiary, it reports only to the parent bank, does not publish its financial statements in open sources and, therefore, is not available for monitoring (see also www.profile.ru/economics/item/105755-suverennyj-chulok).

Investment scopes of the two Kazakh sovereign funds are clearly delineated. Samruk Kazyna invests primarily in national companies operating in priority sectors, and in banks; it often acts as the key partner of foreign companies willing to work in Kazakhstan. The National Fund of the Republic of Kazakhstan invests mostly in foreign government bonds (about 80% of total assets, half of which are represented by US government bonds), and acquires few, if any, equities. Even though it was originally modeled on the Norwegian Oil Fund, from the very start it was decided to invest only in first-class securities of issuers from developed countries (Shagiev and Bukeeva, 2014), which eliminates securities of issuers from CIS countries.

The State Oil Fund of the Republic of Azerbaijan (SOF AZ) is an active portfolio investor: in the end of 2011, it received an official permit to invest up to 5% of its assets in foreign equities, gold, and foreign real properties.

Pension funds of CIS countries seldom, if ever, act as cross-border portfolio investors, which is determined by the rigid statutory requirements regarding investment quality of assets in which they may invest their capital. Accordingly, investment portfolios of state pension funds are extremely conservative, and consist of national and foreign government debt instruments, highly-rated bonds of foreign private issuers, and a considerably smaller share of bonds and equities issued by the country’s leading companies. In particular, the list of permitted assets of the Pension Fund of the Russian Federation includes: government securities of the Russian Federation and its constituent entities, bonds and equities of Russian issuers, units (shares, stakes) of index investment funds investing into government securities of foreign states, bonds and equities of other foreign issuers, securities of international financial organizations permitted for issuance and/or public circulation in the Russian Federation, etc. Non-governmental pension funds invest almost exclusively in public and private assets located in their respective countries. The only exception is the Integrated Accumulative Pension Fund (IAPF) of Kazakhstan, whose investments were a sizeable contribution to the new portfolio investments database.

A substantial amount of information on portfolio investments was obtained as a result of an extremely labor-intensive review of financial statements; supplementary data may
occasionally be gleaned from corporate web sites. The few available scholarly publications on portfolio investments (in Russia, Kazakhstan, Ukraine, Moldova, and Armenia) provide only bare-bone statistics, and yield no data on individual transactions (unlike the rather numerous works on direct investments).

The mass media pay little attention to portfolio investments in the CIS because capital outlays in each particular transaction are not deemed newsworthy. This source of information, however, proved useful in tracking portfolio investments made by wealthy individuals. Within the framework of our research, we relied on ratings of the richest businessmen from various countries, primarily on Forbes rankings.

Our review of corporate financial statements of recipients of portfolio investments showed that the most valuable information could be garnered from bank reports: in some countries, regulators demand that financial institutions disclose detailed information about their beneficiary owners, including minority shareholders. In particular, it was discovered that, according to official records, a substantial part of banks in Moldova are controlled by a group of individuals (citizens of Russia and Ukraine) who own small stakes (1–10%) and probably act in the interests of one or several large entrepreneurs. From the methodological viewpoint, this observation emphasizes the fuzziness of the borderline which formally separates direct investments from portfolio investments. Therefore, a deeper dive into portfolio investments (however little we may know about them) may substantially enrich our understanding — if not of the amount, then at least of the nature and structure — of mutual capital investments in the post-Soviet area.

Inasmuch as the database contains records of investment stock, we introduced a minimal investment period qualification, and recorded only those mutual portfolio investments that were made within the CIS and Georgia, and lasted for six months or more. This helped us to eliminate stock speculators who engage in hard-to-track daily/weekly transactions (even if the assets in question were still owned by such speculators as of December 31), and who do not play any meaningful role in the economies of the relevant countries. By way of illustration of transactions that were not included into the new database, we recall a series of portfolio investments that were made by the Russian entrepreneur S. Kerimov in Kazakhstan, receiving extensive mass media coverage. During the period from April 30, 2013, to May 16, 2013, he purchased 3.13% of shares in ENRC (a mining company) for approximately $0.2 billion with a view to realize, several days later, a profit from reselling the shares in the course of a preannounced delisting.

Our analysis has shown that in the 12 countries under review, portfolio investments are made by different categories of players (private individuals, investment funds, etc.). As a result, the dollar amount of invested funds varies from several thousands to several dozen millions (in certain funds, private individuals may start investing by buying units for as little as $100). The bulk of funding is contributed by large entities. On the other hand, even major players engage in small portfolio investments with a view to diversify their portfolios. It is not incidental that only about ¼ of transactions “captured” in the course of our monitoring exceed the $3 million threshold applied in the MIM CIS to direct investments. Accordingly, it was resolved that in this monitoring exercise the threshold for trackable portfolio investments would be set not at $3 million
(as in the case of mutual direct investments), but at $1 million. This would enable us to cover a broader spectrum of market players.

Our research shows that the largest of all CIS and Georgia mutual portfolio investments at this time is the 5% stake owned by LUKOIL in the Tengiz oil field development project in Kazakhstan. Taking into account total capital investments into the project, by the end of 2015 LUKOIL’s portfolio investment stock exceeded $1.8 billion. The investors consortium headed by the American company Chevron has resolved to invest another $36.8 billion into continued production of hydrocarbons in the Tengiz field in 2017–2022. Accordingly, we can assume that Russian LUKOIL’s portfolio investments in Kazakhstan will be increasing by at least $0.3 billion per year.

At the same time, in the post-Soviet area mutual portfolio investment projects of such magnitude are the exception rather than the rule. To date, there has been only one other project (now discontinued) valued at more than $1 billion in the CIS mutual portfolio investments database. In 2005–2012, Georgian entrepreneur B. Ivanishvili owned a 1% stake in Gazprom, which was categorized as portfolio investment stock ranging from $0.9 billion at the end of 2008 to $1.5 billion at the end of 2010.

We have identified three projects (including one discontinued project) valued at more than $100 million:

- 2.95% of shares of VTB purchased in 2013, in the course of partial privatization of the bank, by the State Oil Fund of the Republic of Azerbaijan (at the end of 2015, portfolio investment stock amounted to $416 million, while two years before that it had been as high as $578 million due to VTB’s then higher market capitalization);
- 125 bonds of International Bank of Azerbaijan purchased in 2014 by the Integrated Accumulative Pension Fund (IAPF) of Kazakhstan (the bonds mature in October 2024, and at the end of 2015 they were valued at $256 million);
- capital investments made in 2014–2015 by Kazakh businessmen into 7.4% of Polymetal shares. The $0.3 billion stake was received in the course of an asset exchange at the time when Polymetal joined the Kyzyl Project, and in 2015 it was redeemed from them by exercising an option.

There are many more investments with dollar values ranging from several thousands to several dozen millions which are quite typical for some investment pairs of CIS countries. For example, none of the numerous Russian portfolio investments in Moldova has a value of more than $1 million. On the other hand, aggregate portfolio investments made by Russian individuals into some companies are quite substantial. Thus, several Russian citizens own various stakes (ranging from 3.72% to 8.87%) in Banca de Economii, while total Russian portfolio investment stock in that Moldovan bank amounts to $3.6 million.

Any analysis of mutual cross-border portfolio investments is heavily affected by the existence of the unique investment project that stands out in the crowd — the 5% stake owned by the Russian LUKOIL in the Kazakh Tengiz project (see above). Its value is 4.3 times higher than that of the second-largest investment project included into the database, and accounts for 61% of total value of all portfolio investments included in the database (as of the end of 2015). The extremely heavy relative weight of LUKOIL’s
portfolio investments preordains a rigid dependence of the parameters describing the entire body of mutual cross-border portfolio investment stock on this one huge project. Accordingly, from now on all indicators related to the value and structure of cross-border portfolio investments will be cited “with” and “without” the Kazakh Tengiz project. The aggregate value of mutual cross-border portfolio investments in CIS countries is very unstable, and their stock is not particularly large (see Table 6).

On the whole, in 2015 CIS and Georgia mutual portfolio investment stock went down by 13%, mostly due to impairment of bonds denominated in national currencies. At the same time, the fall was cushioned to some extent by investments into Eurobonds (for example, the value of Gazprom Eurobonds owned by the Integrated Accumulative Pension Fund (IAPF) of Kazakhstan actually increased from $80 million to $81 million, while the value of Sberbank Eurobonds remained unchanged at $45 million). Nevertheless, it is important to emphasize that few, if any, new sizeable portfolio investment projects were launched in the region in 2015.

The structure of portfolio investments at the end of 2015 was examined based on their total value including and excluding LUKOIL’s investments into the Tengiz project. Our analyses show that one of the key trends in 2013–2015 was the gradual growth of the share of investments into debt securities in total cross-border portfolio investments within CIS countries (see Table 7).
In absolute terms, Russian portfolio investors take an undisputed lead, but Kazakhstan has also gained some visibility due to Integrated Accumulative Pension Fund investments. Perception of the position of Russia as a country of origin of investments is vastly different depending on whether one takes into account the aforementioned large-scale capital investments made by LUKOIL in Kazakhstan. If yes, Russia is the largest country of origin of portfolio investments; if no, the balance of Russian portfolio investments into post-Soviet countries becomes considerably less significant.

The structure of portfolio investment stock at the end of 2015 with a breakdown by recipient countries is provided in Table 8.

The EDB has been singled out as a separate investment recipient because the bank is a supranational entity operating in the interests of all EAEU countries and beyond the jurisdiction of any one such state. Accordingly, investments raised by that issuer are subsequently used for the benefit of all EAEU countries. The share of portfolio investments received by the EDB is considerable, but not predominant.

Russia’s leadership in terms of the scope of raised portfolio investments (excluding the Tengiz project) is attributable to the existence of a number of advantages (vis-à-vis other EAEU countries) gained, among other things, in the course of implementation of economic policy and financial market reforms:

- large size of the economy and the financial market;
- openness of the capital account, high level of liberalization of currency operations in general;
- availability of a capacious market of currency futures which are used as an efficient FX hedging tool;
- availability of a mature legislation and an effective law enforcement system designed to assure protection of the interests and lawful rights of investors, including portfolio investors, etc.

Like portfolio investments, mutual long-term loans in the CIS and Georgia have a much more modest scope than direct capital investments: according to our monitoring data, their stock at the end of 2015 stood at $2.3 billion.
According to the CBR classification, long-term loans are assigned to the category “Other Investments.” For monitoring purposes, they can be provisionally divided into three groups: (1) loans extended under inter-governmental agreements; (2) large, especially syndicated, loans extended by major banks, sometimes acting through local subsidiaries; and (3) smaller loans extended directly under an agreement between a bank in one CIS country and a borrower (a company or, less frequently, a bank) in another CIS country.

The easiest to monitor are loans extended under inter-governmental agreements for stabilization purposes (like several loans extended by Russia to the Republic of Belarus) or to finance implementation of major projects. In addition to the widely publicized allocation of funding by Vnesheconombank to finance construction of an atomic power station in Belarus, we can recall the agreement (signed in 2009) for extension by Russia to Kyrgyzstan of a $1.7 billion long-term loan to finance construction of the Kambartata-1 Hydro Power Plant. Later the project was frozen, and Kyrgyzstan had actually received only $37 million. In 2016 Russia extended to Armenia a $200 million loan to finance acquisition of weapons. The funds were disbursed via Vnesheconombank.

Loans assigned to the second group are harder to track. For example, the Russian Sberbank frequently conducts lending operations through its foreign subsidiaries. In particular, it extended a $1 billion loan to the Belarusian Belaruskali (following a 2015 restructuring, the principal was reduced to $870 million) and a $208 million loan to the Kazakh company Kazakhstan Temir Zholy.

Loans assigned to the third group are practically untraceable, as publicly available information covers only a small fraction of such loans, and it is difficult to make an informed judgment as to the scope and participants of the relevant loan transactions.

Despite the fact that the scope of mutual long-term loans identified in the course of our monitoring is still rather unimpressive, available data indicate that they have a good growth potential. In particular, it has been agreed that Vnesheconombank will allocate $10 billion to finance construction of the Belarusian Atomic Power Station within the framework of implementation of the relevant inter-governmental agreement and with a view to supporting Russian exporters (the station will be built by Atomstroyexport). Even though the construction contract went into effect in late 2011, the first tranche of $500 million was not disbursed until the spring of 2014.

2.2. Current Problems Affecting Investment Interaction between EAEU Countries at the Corporate Level

The overall capacity of financial markets in EAEU countries is not large: even the most advanced national financial markets in countries of this group are much less capacious than those in countries with developed markets and in most countries with large emerging markets. Delayed development of the financial sector in EAEU countries is an objective reality, and it considerably decelerates and weakens investment interaction in this group of countries.
Portfolio investors pay special attention to the level of liquidity of security markets for trading securities which make up their portfolios (Kostikov, 2004). Availability of liquid security markets enables portfolio investors to fully or partially dispose of a certain instrument regardless of the position of the investee, if and when it becomes necessary (for example, following a deterioration or economic conditions, or occurrence of any other adverse event).

In connection with that, the most important problem affecting development of security markets in terms of improving portfolio investment prospects is that in most EAEU countries they have inferior liquidity, which prevents issuers from obtaining fair market valuations of their securities on the one hand, and prevents portfolio investors from profitably selling off their investments in the secondary market, on the other hand.

Judging by the year-end ratio of annual stock trade to capitalization, Russia is on a par with several medium-sized emerging markets (including, for example, Poland and Dubai), and its security market capacity is several times larger than that of Kazakhstan, with the other EAEU countries even further behind (see Figure 5). On the other hand, market liquidity benchmarking against the larger emerging markets yields catastrophic results even for Russia (in 2015, its ratio of annual stock trade to capitalization was more than 20 times worse than, for example, China’s).

The insignificance of foreign portfolio investment stock of EAEU countries testifies to the existence of material limitations on the development of cross-border portfolio investing and, more generally, cross-border corporate investment cooperation within the EAEU. Such limitations may, in principle, be grouped as follows:

- limitations related to availability of portfolio investors and, consequently, resources for portfolio investing (who is investing?);
- limitations related to availability of attractive instruments for portfolio investing (what are investment targets?);
- limitations related to the high level of risks associated with portfolio investing (how profitable and safe is it?).

We believe that the main problems preventing development of cross-border portfolio investments within the EAEU are those associated with the third group of limitations, including, in particular, the following:

1. High level of country risks and uncertainty regarding future government behavior with respect to economic policies, investment environment, and tax regimes.
2. High level of FX risks, and absence in most EAEU countries of efficient FX risk hedging mechanisms.
3. Absence of investment insurance and guarantee coverage that would mitigate most country risks and some FX risks.
4. Absence of liquid national security markets (in most EAEU countries) that would make it possible for investors to efficiently manage their portfolio risks, among other things, by way of portfolio diversification, and promptly dispose of certain investments when necessary.
The main problems associated with limitations related to availability of portfolio investors and, consequently, resources for portfolio investing are as follows:

1. High (in some countries, disproportionately exaggerated) role of commercial banks in the national financial system which, to a large extent, contributes to the absence or scarcity of non-bank financial institutions — institutional investors (Lanskov, Maksimchuk, Duisenova, 2015).

2. High level of dollarization, and generally suboptimal structure of individual savings (Mirkin, 2015; CBR, 2016a; Kruk, 2015), which severely narrows the resource base that could be used by institutional investors willing to engage in portfolio investing.

3. Pervasive presence of the state in the financial system (inter alia, in the capitals of financial institutions), which diminishes operating efficiency of such financial intermediaries (Mirkin, 2015), and prevents development of competition which could increase the number of portfolio investors, including those willing to engage in cross-border investing between EAEU countries.

4. In some countries, extremely low number of financial institutions, which leads to excessive concentrations in certain segments of the financial market (Lanskov, Maksimchuk, Duisenova, 2015), drives up the average investment amount and, accordingly, encourages a structural shift from portfolio investments to direct investments.

The main problems associated with limitations related to availability of attractive instruments for portfolio investing are as follows:

1. In most countries, extreme scarcity of instruments which are suitable for portfolio investing and have market valuations.

2. High share of the state in the capitals of major national corporations acting as issuers of shares, and poor protection of the rights of investors, including majority investors,
which, in the aggregate, considerably reduces the proportion of shares that are freely traded in the national stock market (free float) and, potentially, could be targeted by cross-border portfolio investors.

Many of the problems described above are not directly related to the operation of financial markets. Thus, the suboptimal structure of savings is a critical factor preventing the inflow into financial markets of EAEU countries of household savings which traditionally represent the bulk of portfolio investor resources. On the other hand, high country risks and public policy uncertainties severely undercut the appeal of portfolio investing.

Therefore, the problems which affect financial markets of EAEU countries and hinder expansion of cross-border investment interaction at the corporate level include the following:

1. Low liquidity of security markets in most EAEU countries.
2. Pronounced deficiency of acceptable portfolio investment instruments (number of instruments circulating in the market, low free float).
3. Existence of statutory limitations on currency operations, and absence of a broad gamut of FX risk hedging mechanism in most EAEU countries (EDB Centre for Integration Studies, 2016; Kondratov, 2014).
4. Absence of insurance companies capable of insuring portfolio investment risks, among other things, because of inferior depth of insurance markets in most EAEU countries (see, for example, Mirkin, 2015).
5. Absence of banks capable of issuing sureties to secure debt portfolio investments (because of the absence of laws and regulations governing such transactions in EAEU countries).
7. Low level of competition between financial institutions in the financial markets of most EAEU countries (NBRB, 2016; NBK, 2015; CBA, 2015).

There are also certain key factors that facilitate development of cross-border investment interaction between EAEU countries at the corporate level.

First, improvement of supranational regulation within the EAEU, increased harmonization of national regulatory systems, reduction of the number of grounds on which EAEU countries may deviate from the standards stipulated by the Treaty on the EAEU. Higher predictability of changes in the terms of conduct of entrepreneurial and investment activities in all EAEU countries will have a positive impact on the growth of cross-border portfolio investing within the EAEU, as it will naturally mitigate the risks associated with portfolio investments in EAEU countries.

Second, further development of institutional investors, primarily in countries with a high level of savings (Russia and Kazakhstan in the EAEU, Azerbaijan outside the EAEU). Out of all types of institutional investors, pension institutions, especially those that accumulate pension savings, play an especially important role in the development of portfolio investments. Another significant question is what can be done to incentivize cross-border pension portfolio investments.
Third, existence of a liquid secondary market for instruments targeted by portfolio investors. In certain EAEU countries, independent evolution of national markets to a level where liquidity risk ceases to be a critical barrier in the way of portfolio investments may take a very long time. In such cases, a more efficient solution would be to create supranational security markets where issuers from countries with illiquid markets could obtain fair market valuations within a shorter period of time, and establish a liquid secondary market for their instruments.

Fourth, mitigation of risks associated with portfolio investments. This could be done both by using traditional security market development methods (better protection of the rights of investors, higher transparency, implementation of corporate governance best practices), and by applying enhanced risk management techniques (development of derivative markets, insurance and guarantee coverage of investments).

It appears expedient to structure the entire set of measures directed at active development of cross-border portfolio investments in EAEU countries in line with the key drivers of such development. Then recommendations on development of cross-border portfolio investments would be arranged into the following four groups:

1. Develop, and assure compliance with, supranational laws and regulations and, among other things:
   - provide a more detailed treatment of the general regulatory norms stipulated by the Treaty on the Eurasian Economic Union;
   - assure observation of the norms stipulated by the Treaty on the Eurasian Economic Union, reduce the incidence of deviation from such norms by the member states by abbreviating the list of grounds for such deviation;
   - have the states which have acceded to the Treaty on the Eurasian Economic Union assume an obligation to refrain from adversely changing the terms of conduct, in the territory of such states, of investment activities by investors from other EAEU countries, such obligation to remain in effect, as a minimum, for a certain fixed period of time;
   - introduce the possibility for EAEU entities to bring actions before international specialized courts (financial court, investment court) empowered to provide legal treatment of acts or omissions of EAEU countries that may prejudice the interests of investors, including portfolio investors;
   - expand the use of compensatory payments to investors by the states deviating from the norms stipulated by the Treaty on the Eurasian Economic Union, where such deviations inflict losses on investors, including loss of profit;
   - harmonize national laws governing the operation of financial markets and the conduct of investment activities.

2. Develop an industry of institutional investors engaged in cross-border portfolio investing and, among other things:
   - encourage comprehensive development of pension institutions (including both government savings institutions already operating in the cross-border portfolio investments market, and non-governmental pension funds), and stimulate their engagement in cross-border portfolio investments within the framework of the EAEU;
• take a more proactive stance in attracting sovereign funds of CIS countries and foreign countries into the cross-border portfolio investments market;
• increase the value of portfolio investments made by the EDB;
• stimulate creation and development of investment funds targeting EAEU countries;
• pursue coordinated economic policies designed to assure integrated development of other institutional investors, increase their overall number, and secure an appropriate level of competition in all national markets of EAEU countries.

3. Create supranational security markets as the basis for assuring liquidity and market valuation of investment instruments and, among other things:
• create a specialized venue to facilitate trading in instruments currently circulating in illiquid national markets of EAEU countries and/or bridges between the existing national exchanges;
• develop settlement mechanisms for transactions supported by liquidity in national currencies.

4. Mitigate the risks associated with portfolio investments and, among other things:
• expand the use of corporate bond accounting (redemption) mechanisms;
• develop derivative markets;
• encourage extension of insurance coverage of portfolio investments;
• provide guarantees and sureties for portfolio investments;
• increase the level of protection of investors;
• improve transparency and implement corporate governance best practices;
• provide technical assistance to assure further development of national financial markets.
3. Mutual Direct Investments in EAEU Countries

Deepening integration within the EAEU and emergence of its single market open up new corporate interaction vistas. Using the advantages offered by the union, investor companies can intensify formation of cross-border value creation chains. The young integration association already has serious achievements, but it also has limitations which have affected, or may affect, evolution of business activities in EAEU countries. To make specific management decisions or develop practical recommendations, it is particularly important to have objective data on business contacts between union member states, including data on mutual direct investments. The MIM CIS Database currently contains information on 215 mutual EAEU FDI projects with total capital investment stock of at least $1 million, as well as information on 328 relatively smaller investment projects and several dozen terminated projects.

3.1. Investments in the EAEU: Relative Sustainability

Over the course of 2015, mutual FDI in the EAEU decreased by 6.6% down to $23.7 billion. That decrease is largely attributable to impairment of previously created assets (for example, in the aftermath of devaluation of national currencies), rather than to liquidation/resale of companies with mutual capital investments. Still, mutual FDI in EAEU countries appears to be more sustainable than in the post-Soviet area as a whole (see Figure 6). The contribution of mutual FDI by EAEU countries to total mutual direct investments originating from CIS countries and Georgia went up from 47% in 2008 to 56% in 2015.

Figure 6. Comparison of Mutual Direct Investment Stock of CIS Countries and EAEU Countries in 2008–2015
Russia and Kazakhstan are the most active mutual investment players in the EAEU region. At the end of 2015, Russia accounted for 81.5% of exported FDI stock and 15.1% of imported FDI (in terms of inward direct investments, Russia is noticeably behind Kazakhstan and Belarus). For Kazakhstan, those indicators stood at 17.4% and 30.2%, respectively. Russia and Belarus made up another important investment pair with massive capital cross-currents. Other notable investment flows are Russia’s investments in Armenia and Kyrgyzstan and Kazakhstan’s investments in Kyrgyzstan and Armenia (see Table 9).

Russia is the only net exporter of mutual FDI originating from EAEU countries. This is largely attributable to the size of the Russian economy, which produces more than 85% of total EAEU GDP. Another factor is the earlier and more powerful foreign expansion of Russian TNCs. It is not incidental that at the end of 2015 Russia’s ratio of FDI stock exported to all countries of the world to national GDP was 19% vs. 13.8% in Kazakhstan, 3% in Armenia, 1.3% in Belarus, and 0.03% in Kyrgyzstan (UNCTAD, 2016, annex table 08).

The leading mutual FDI sectors in the EAEU are Oil and Gas and Non-Ferrous Metals. At the end of 2015, their shares in total Russian mutual investments were 42.6% and 12.0%, respectively, which is considerably higher than the shares of those two sectors in total mutual investments by CIS countries and Georgia. The same was true for mutual FDI in Transportation and Agriculture and Food Products whose shares amounted to 8.8% and 6.5%, respectively. At the same time, the shares of mutual FDI into Communication and IT, Finance and Infrastructure Networks in EAEU countries are lower than for the whole post-Soviet area (see Figures 3 and 7).

It should be noted that contraction of mutual FDI in the EAEU region in 2015 proceeded at different rates in different sectors. While in Oil and Gas, Transportation, and Agriculture and Food Products FDI stock remained virtually unchanged (at $10.1 billion, $2.1 billion, and almost $1.6 billion, respectively), capital investments in Non-Ferrous Metals went down from $3.8 billion to $2.8 billion, in Communication and IT from $2.3 billion to less than $2 billion, and in Finance from $1.7 billion to $1.4 billion. At their peak values in 2012, FDI stock in those three sectors was even higher at $4.7 billion, $2.8 billion, and $1.8 billion, respectively.
The structure of EAEU FDI in Tajikistan, the only EDB member state which has not acceded to that integration association, is somewhat different from the structure of mutual FDI within the EAEU region. The leading sector (because of the role played by electric power generation) is Infrastructure Networks (48.4%), and the runner-ups are Communication and IT (21.1%), and Tourism (13.6%). Notable roles are also played by Oil and Gas (8.8%) and Finance (6.1%). However, the relatively modest scope of Russian and Kazakh FDI in Tajikistan does not cardinally change the overall sectoral structure of mutual FDI made by the 6 EDB member states vs. the 5 EAEU countries. Thus, the share of Oil and Gas, EAEU’s leading sector, goes down only from 42.6% to 41.1%. On the other hand, the share of Infrastructure Networks goes up from 3.5% to 5.5%, promoting the sector from the 8th position to the 7th position.

Reduction of mutual FDI in 2015 was accompanied by execution of a number of new smaller deals. For example, in Communication and IT, the Kazakh Alma Group acquired Figure One, a communication services provider with several dozen thousand subscribers in Moscow and the Moscow Region, for at least $20 million. Some analysts believe that this may be the first step towards creation in Russia of a major telecommunications holding with Kazakh equity participation (Kodachigov, 2016). In Non-Ferrous Metals, the Russian company Polymetal (whose FDI in the EAEU has already exceeded $0.4 billion) acquired two more production assets in Armenia and Kazakhstan for $18 million. Only the banking sector reported the loss of an asset: Belarus Inter Pay Bank (whose charter capital in 2014 was $14 million), an entity controlled by two Russian companies (PJSC Alliance Ipoteka and JSC StarBank), discontinued its operations after its license was revoked in 2015. Interestingly, one year later StarBank, the owner of an almost 20% stake in that Belarus financial institution, also had its license revoked, but this time in Russia.
3.2. Russian Direct Investments: Asset Revaluation Impact

Russian companies are the most active and largest investors in EAEU countries. This region offers them, probably, the most comfortable conditions for foreign operations. The deepening formal integration, without any doubt, is a critical positive factor in addition to common historical and economic pasts, territorial proximity, and linguistic affinity which, in their totality, assure a high level of awareness of the specifics of doing business in the relevant countries. As a result, the structure of Russian FDI in EAEU countries (including investments into high added value facilities) is particularly diverse (Kuznetsov, 2014).

Following the onset of the Ukrainian crisis, EAEU countries remain the only preferred investment destination for many Russian companies which — at least for the time being — stop short of going beyond this range with its pronounced “neighborhood effect.” Essentially, we are dealing with a large corpus of the so-called “regional TNCs” — a term which can be applied to most “middle range” Russian TNCs. For them, existence of an integration project in the post-Soviet area is an important capital export “mobilization factor”, similar to the incentives for intertwining of capitals in the EU for West European TNCs in the second half of the 20th century. Besides the few large Russian investor companies with strongly pronounced global competitive advantages, massive amounts of capital are exported by Russian companies of other types, such as major TNCs whose foreign expansion relies, to a large extent, on Russia’s traditional ties, smaller TNCs whose global competitive advantages are confined to narrow niche markets, and TNCs whose competitive advantages are still in a nascent state (Kuznetsov, 2012).

Out of the 10 existing EAEU investment pairs, all 4 pairs with the participation of Russia are at the top of the game:

- Russian-Kazakh mutual FDI stock at the end of 2015 amounted to $10.5 billion, having gone down over the course of the year by more than $1.6 billion (a decrease compared even to 2008), with Russia’s partner — Kazakhstan — accounting for 32% of total exported FDI;
- Russian-Belarusian mutual FDI stock at the end of 2015 reached $8.5 billion, having gone down over the course of the year by $160 million (while Belarusian capital investments in Russia have increased). The long history of close integration interaction between the two countries has yielded fruit — compared to 2008, Russian-Belarusian mutual FDI stock has increased 2.5-fold (by more than $5 billion);
- Russian-Armenian mutual FDI stock (almost exclusively represented by Russian capital investments in Armenia) at the end of 2015 exceeded $3 billion, having increased over the course of the year by $25 million (compared to 2008, it has grown 1.6-fold, or by almost $1.2 billion);
- Russian-Kyrgyz mutual FDI stock (also almost exclusively represented by Russian capital investments in Kyrgyzstan) at the end of 2015 exceeded $0.8 billion, having increased over the course of the year by $113 million (compared to 2008, it has grown 2.3-fold, or almost by $0.5 billion).

Cf.: at the end of 2015, Kazakh-Kyrgyz FDI stock stood at only $0.7 billion, and Kazakh-Belarusian FDI stock at $0.1 billion.
2015 year-end direct investments in Russia originating from other EAEU countries were merely $3.6 billion. The relatively modest FDI scope is attributable to limited foreign investment capacity of business entities from partner countries, rather than any lack of investment appeal in the integration association’s largest member state. This assumption is indirectly supported by Rosstat data on the number of companies with EAEU capital registered in the Russian Federation — at the beginning of 2015, there were 3.3 thousand Belarusian subsidiaries, more than 0.5 thousand Kazakh subsidiaries, more than 200 Armenian subsidiaries, and about 60 Kyrgyz subsidiaries. Note that the number of companies with Belarus capital in Russia is 1.2 times higher than the number of companies with Russian FDI in Belarus, and that there are 15 times more Kazakh companies and 3 times more Armenian companies in Russia than in Belarus (Rosstat, 2015; Belstat, 2015).

More than half of Russian FDI stock in EAEU countries is concentrated in Oil and Gas (see Figure 8). Non-Ferrous Metals, Communication and IT, Finance, and Transportation also play an important role. There is significant FDI in Wholesale and Retail Trade and Infrastructure Networks.

At the same time, not all leading Russian TNCs are on the list of large-scale investors in EAEU countries. For example, Sovkomflot, a Russian transportation company which at the end of 2014 had the sixth-largest foreign assets position among Russian non-financial TNCs, has not yet made any FDI in the EAEU (see Top 20 Russian TNC Ranking — Kuznetsov, 2016). This, however, is only logical, as the company is engaged in provision of marine shipping services. One more example: Zarubezhneft, No. 10 on the list of Russia’s largest non-financial TNCs, has so far made only a token direct capital investment in Kazakhstan (and in the neighboring Turkmenistan). In terms of EAEU investment presence, it lags far behind not only the leading Russian investors — Gazprom and LUKOIL — but also Rosneft.
Another EAEU FDI sluggard is Nord Gold (No. 13), even though Russian investments into goldmining in EAEU countries are (just like with oil production) quite substantial (for example, Polymetal (No. 19) is a major contributor).

The same is true for two metallurgical companies — NLMK (Novolipetsk Steel) and MMK (Magnitogorsk Iron and Steel Works) (Nos. 16 and 18 on the list of Russian TNCs with largest foreign assets). Both have only small subsidiaries in Belarus (in the case of MMK, only a sales agency). It is true that Russian companies belonging to the Ferrous Metals sector have made much more FDI in EU countries and the US, while their preferred investment target in the post-Soviet area is Ukraine. But Evraz, the 5th largest Russian non-financial TNC, invested several dozen million dollars in a Kazakh production facility in the Kostanay Region (by the end of 2015, the value of its fixed assets had almost halved to $60 million, but in 2013–2014 we estimated this FDI stock at $118–119 million). As a result, Russian investors are grievously underrepresented in the EAEU Ferrous Metals sector.

A more prominent role is played in the EAEU by such Russian investors as MTS (a telecommunication company) and Transneft (a transportation company). Still, the largest
investment projects were initiated and completed by the leading Russian oil and gas TNCs (see Table 10). Russian dominance in mutual EAEU FDI projects is not absolute, though. For example, the Kazakh business group Verny Capital has implemented the 4th largest FDI project, and Ivolga-Holding the 6th largest FDI project (both in Russia). Additionally, there are two more Kazakh investors just below the middle of the Top 20 list of the largest investment projects.

3.3. Special Investment Model of Belarus

The Republic of Belarus, as an investor country and a FDI recipient, has a number of unique features that distinguish it from most other CIS countries. It is those features that make the country vulnerable in mutual investment cooperation within the framework of the CIS, which has prompted us to dedicate to it a special section of this paper, especially as Belarus, formally, is the largest recipient of FDI from EAEU countries.

The inflow of foreign capital into any country is, to a large extent, determined by the investment environment that has emerged in that country and evolved for better or worse with the course of time. From a formal point of view, many original parameters that determine the quality of the investment environment in Belarus are quite favorable and capable of attracting the attention of investors both from CIS countries and from abroad. Belarus has a well-developed and diversified industrial production base, partially inherited from the USSR and partially created during the post-Soviet era. That production base comprises cutting-edge knowledge-intensive and high-tech industries and a powerful agroindustrial complex which makes ample use of relatively modern technologies for production and processing of agricultural raw materials. The country is among CIS leaders in terms of human resources price/quality ratio: more than 90% of the working-age population has a university or high-school education or basic vocational training, the labor market has a substantial number of highly qualified specialists in virtually every professional category, and average wages and salaries remain rather modest.

A known deficiency of the Belarus economy is the absence of most natural resources (with the exception of timber, potassium salts, and certain other minerals), which automatically makes it non-eligible for implementation of major international mineral extraction projects and, consequently, prevents the inflow of FDI from commodity companies established in a number of CIS countries rich in mineral resources. At the same time, Belarus has a very propitious geographical position, being, essentially, a transport and trade corridor between Europe and the CIS. Its territory is traversed by oil and gas pipelines, railways, motorways, and telecommunication lines connecting Western and Central Europe to Russia and Asian countries. Therefore, in theory Belarus can attract investors seeking to create strategically positioned facilities designed to process raw materials and support subsequent exportation of value-added products to the West. The country has a mature transport, logistical and power infrastructure, which massively improves its investment appeal.

An important additional advantage in the context of cross-border investment ties is EAEU membership of Belarus, as companies (including companies from CIS countries)
which invest capital into production in the territory of the country automatically gain access to the markets of Russia, Kazakhstan, Armenia, and Kyrgyzstan.

In addition to the existing objectively favorable investment environment, foreign investors attach much importance to laws and regulations that govern their activities. The law regulating direct foreign investments is constantly improved. The current version of Law on Investments, adopted in 2013, introduced a norm in accordance with which investors are not restricted in selecting investment methods or sources of funding. However, in practice, norms and provisions stipulated by that law and by other regulations related to foreign investors in Belarus have not yet been fully implemented.

Despite the relatively favorable investment environment, the amount of investment capital accumulated in the country and annually flowing in from CIS countries (probably, with the exception of Russia) remains unimpressive. This state of affairs may be partially explained by the dearth in many CIS countries of uncommitted investment resources (i.e. simply by the shortage of capital), and the low level of economic and technological development in such countries. But, more importantly, there are several country-specific negative factors which impede the inflow of direct investments into Belarus. The most critical of those factors are the dominance of state ownership in the economy, and priorities and peculiarities of the state economic and social policies.

The state sector currently accounts for more than 70% of total industrial production in Belarus. Most enterprises throughout the country are consolidated into state-owned sectoral holdings. Privatization in Belarus proceeds slowly and painfully (even though it could potentially make it possible to rapidly raise substantial FDI). The bulk of large, technologically sophisticated enterprises operating in key sectors of the economy which could be most attractive for investors from Russia and certain other CIS countries is still not slated for privatization. Besides, even if an enterprise is put up for privatization, the government, acting in accordance with the prevalent state social policy, oftentimes makes the sale to the investor contingent upon compliance with various cumbersome conditions (such as continued employment of redundant personnel, support of community facilities at the expense of the enterprise, etc.). Private investors are also scared off by government price controls, hidden discrimination in terms of access to raw materials and resources, excessive public reporting, frequent examinations, and inordinate red tape.

Generally speaking, Belarus became the leading recipient of FDI from EAEU countries because of only one transaction — purchase by Gazprom of Beltransgaz, the company that was responsible for exportation of natural gas from Russia to Poland and other EU countries (now known under the name Gazprom Transgaz Belarus). The CBR is gradually writing the asset down, while in Belarusian statistical publications it is still reflected at historical cost (we have decided to use the Belarusian approach). The next four largest Russian investments in Belarus — the MTS telecommunication subsidiary, Transneft trunk pipeline, Mozyr Refinery (a 42.6% stake is owned by Slavneft), and Vnesheconombank subsidiary — have values that are several times less than that of the Gazprom investment. Overall, at the end of 2015 these five projects accounted for 85% of total EAEU FDI stock in Belarus.
Another factor that dams the inflow of capital from CIS countries is the Belarus government’s insistence that FDI should be channeled into the so-called “priority areas”, including pharmaceutics, biotechnology (genomics, cellular engineering, biosensors, etc.), nanotechnologies, industrial high technologies, new materials, IT, chemical production, machines and equipment, electronic and optical equipment, etc. Apparently, CIS countries (with the exception of Russia and, with major provisos, Ukraine) are not capable of competing with western companies in those areas, and cannot deliver the required technologies to Belarus and capitalize on the extensive privileges accorded to foreign investors.

Export of capital in the form of direct investments from Belarus to CIS countries is also insignificant. One of the reasons for that is the extremely cumbersome investment decision-making process that must be followed by state-owned enterprises (which are responsible for most investments into CIS countries). Besides, JV establishment projects announced by Belarusian companies in CIS countries (and in Belarus), as a rule, do not go beyond the stage where the parties sign a letter of intent or discuss and prepare a draft business plan.

Things are different in the case of JVs for the manufacturing of MAZ and BELAZ heavy trucks, Belarus tractors, agricultural equipment, and trolleybuses. Such JVs operate, for example, in Kazakhstan and outside the EAEU (in Azerbaijan and Moldova). We doubt, though, that those are true JVs with Belarus equity participation. Usually such JVs (with rare exceptions) are simply specialized CIS plants putting together vehicle assembly sets purchased in Belarus.

The share of private businesses in total capital exports from Belarus to CIS countries is negligible. The private sector in Belarus is represented mostly by small and medium-sized companies and, as a rule, lacks resources to finance full-fledged foreign investments. The well-known EPAM Systems, a Belarus-American software company with high-profile partners and a footprint covering Armenia, Kazakhstan, Russia, and Ukraine, is not an exception: its presence in CIS countries is limited to leasing offices, keeping a skeleton staff, looking for customers, and signing work contracts. All software is actually developed in the territory of Belarus.

Another feature typical for Belarus investments in CIS countries is the creation of numerous companies making up commodity distribution networks (CDNs), which supports the assumption that Belarus seeks to export goods rather than capital (see also EDB Centre for Integration Studies, 2015b). The structure of Belarusian FDI stock (excluding projects with investments of $1 million or less, which basically means all CDN companies) is generally less diverse vis-à-vis both Russian and Kazakh FDI stock (see Figure 9). Interestingly, Belarusian FDI stock and Russian FDI stock are similar in that both are dominated by Oil and Gas, even though Belarus is not an oil/gas state; the reason is the two projects that Belorusneft is implementing in the Yamal-Nenets Autonomous District of Russia.

Investment cooperation between Belarus and CIS countries has a strongly pronounced “neighborhood effect.” For a long time, Russia (in particular, the Smolensk Region and Bryansk Region where small and medium-sized Belarus companies are especially active)
and Ukraine have been the main investment destinations for Belarus capital. Due to operation of the factors described above, the country’s membership in the EAEU has still had little or no effect on distribution (or redistribution) of Belarus direct investments in the territory of the CIS.

3.4. FDI Flows of Other EAEU Countries: What Has Changed?

Kazakhstan has the second most extensive network of mutual investment ties within the EAEU. At the end of 2015, Kazakhstan’s direct investment stock in CIS countries and Georgia amounted to $4.9 billion, with 84% of those investments represented by Kazakh FDI in EAEU countries. Unlike Russia’s post-Soviet FDI, Kazakh FDI in 2015 did not decline, as the absolute decrease in “small” countries was set off by an insubstantial (a little over 1%) relative increase in Kazakh FDI in Russia (Meridian Capital investments).

Over the course of 2015, FDI stock imported into Kazakhstan from CIS countries (with more than 99% financed by Russian TNCs) subsided by 19%. That was one of the worst indicators recorded in the post-Soviet area. Reduction of capital investment stock was caused by devaluation of the national currency which directly affected the value of existing investment projects. It should also be remembered that reduction of earlier FDI was partially offset by additional investments in certain previously completed projects and capital investments in new projects.

The main investment partners of Kazakhstan in the EAEU are Russia and Kyrgyzstan. Kazakh investment stock in Belarus (Agriculture and Food Products and Finance) is minimal at slightly more than 2%. In terms of the scope of inward Kazakh FDI, Belarus takes a back seat to two non-EAEU countries, namely, Georgia and Ukraine. According to the MIM CIS Database, there is only one major project launched by Kazakh TNCs in Armenia: BTA Bank, which is 65% owned by its Kazakh namesake parent.
Generally, the sectoral structure of Kazakh FDI stock in EAEU countries is noticeably different from that of Russian FDI stock in the region (see Figure 10). Agriculture and Food Products comes in first on the back of Ivolga-Holding investments in crop farming and Meridian Capital investments in the dairy industry in Russia. Transportation is the runner-up with Meridian Capital in the lead due to its investments in Russian airports; significant FDI was also made in the Caspian Pipeline Consortium (Kazakhstan’s share is 20.75%; the bulk of the pipeline runs through the territory of Russia). Tourism stands out because of Kazakh investments in hotels in Russia and Kyrgyzstan.

It is believed that Armenia has a small economy and an inadequate domestic market incapable of sustaining vibrant economic growth. For Armenia, participation in regional integration projects appears to be the best course of action that will facilitate its closer cooperation with a view to expand international trade and raise FDI (Ayrapetyan and Ayrapetyan, 2015). Inasmuch as on January 2, 2015, Armenia officially acceded to the EAEU, it is only reasonable for us to take an in-depth look at its investment ties, and analyze their evolution over the course of the previous year.

Investment cooperation with EAEU partners basically boils down to the inflow of Russian capital to Armenia. In 2015 Russian FDI stock exceeded $3 billion. Large Russian investors are implementing a series of projects in various industries, including Telecommunications (VimpelCom, MTS), Fuel and Electric Power (Gazprom, Inter RAO UES, etc.), and Metallurgy (primarily, Neva-Rus, Geopromining and RUSAL), and in two sectors, specifically, Finance (Gazprombank, VTB, Troika Dialog) and Transportation (Russian Railways). Cooperation with the other EAEU countries is currently rather insignificant. Several minor projects are being implemented in Armenia by Belarus (Retail Trade) and Kazakhstan (Banking).

Armenian investments abroad are concentrated in Agriculture and Food Products. Most of the few investment projects are implemented by two prominent Armenian entrepreneurs. G. Tsarukyan’s MultiGroup established a brandy bottling JV in the Minsk
Region, while G. Vardanyan’s Grand Holding owns tobacco factories in Georgia and Russia. The only Armenian investment project in Kazakhstan is the alcoholic beverages production facility owned by Ararat Winery. The year of 2015 was unremarkable for Armenia investment-wise. The only major investment project outside the EAEU was the modernization of production facilities at Zarubintsy Distillery in the Ternopol Region of Ukraine. The funding provided by Armenian investors ($2.5 million) was used to refurbish the distillery and commence production of bioethanol.

Taking into consideration Armenia’s short-lived membership in the EAEU, it would be premature to expect an immediate increase of investment flows to and from the other member countries. On the other hand, MIM CIS data indicate that there have been no adverse trends or capital flight incidents over the year that has passed since Armenia’s accession to the EAEU, meaning that the existing ties are stable and sufficiently strong.

Despite Kyrgyzstan’s rather high potential, for a number of reasons its current investment appeal is low. First, in the opinion of certain experts and business community representatives, local authorities have failed to create favorable conditions for foreign investors.

Second, the political situation in Kyrgyzstan remains rather precarious. Since 1990, the country has gone through two coups-d’etat and has changed more than twenty prime ministers. New politicians are usually not willing to assume responsibility for the errors and promises made by their predecessors, and so they impose new rules, and investors are forced to adapt to those rules. As a result, foreign investors in general, and investors from CIS countries in particular, are faced with a hard-to-solve problem of long-term planning and assuring recoupment of their investments in the Kyrgyz economy.

Third, in most cases foreign investors consider the human resources price/quality ratio in Kyrgyzstan to be unsatisfactory. On the one hand, wages and salaries in the country are low, which formally (and subject to certain provisos) can be regarded as an investment advantage. On the other hand, in most potential target sectors, the qualified workforce is scarce to non-existent, which puts investors in a dilemma: they have to either train or import personnel, which entails material additional costs, or cease to consider Kyrgyzstan as an investment recipient, and redirect their capital into more developed regions. CIS investors, with the exception of those working in Agriculture and Food Products and some other sectors, choose the second option.

The current government of Kyrgyzstan realizes the need to change the situation and improve the investment environment in the country. Attraction of direct foreign investments is postulated as one of the country’s economic policy priorities, which might eventually translate into commencement of economic reforms and improvement of the existing legislation. In particular, free economic zones recently created in Kyrgyzstan could theoretically become a powerful magnet to attract foreign investors. Also, Kyrgyzstan could score major successes in bringing foreign capital into its mining industries. Inasmuch as Russian and Kazakh TNCs have always occupied dominant positions among CIS investors in Kyrgyzstan, membership in the EAEU should produce additional positive effects. Incidentally, by the end of 2015,
Russia again overtook Kazakhstan whose leadership had largely been attributable to the “neighborhood effect.”

Kyrgyzstan’s position as an investor in CIS countries generally appears rather tenuous due to the lack of requisite investment resources and the country’s technological obsolescence. Having said that, capital is probably exported from Kyrgyzstan in rather large quantities, but it is next to impossible to track those capital flows using only open sources of information, as they are represented by hidden portfolio investments and real property acquisitions abroad by private individuals (sometimes through offshore areas).
Conclusion

Improvements in official Russian FDI statistics that have occurred over the last several years, primarily in the form of additional data on structural parameters of foreign investments in Russia and Russian investments abroad as published by the CBR, inspire hope that in the immediate future many problems which have inhibited adequate registration of direct investments — and which we sought to overcome by creating MIM CIS — will have been resolved. Much still needs to be done, including an alignment of statistical accounting practices in EAEU countries. So far only Russia and Belarus have scored some successes in that area. Accordingly, continued efforts to carry out advanced in-depth analyses within the framework of MIM CIS remain relevant. Moreover, central banks themselves would do well to put our expertise to good use.

In our opinion, the tasks related to registration of FDI by central banks can be divided into three groups (and MIM CIS is prepared to give recommendations with respect to each such group):

• selection of all eligible target companies for examination — circulation of Form 1-PI questionnaires (CBR, 2015), review of official statements, etc.;
• geographical localization — identification of pseudo-foreign companies registered in offshore areas, but with decision-making centers in EAEU countries;
• indirect FDI assessment in the absence of accurate information on the project.

At the same time, MIM CIS information will continue to be used for research purposes and to tackle applied business tasks related to evaluation of the nature and prospects of Eurasian corporate integration. Due to the increasing integration between the two partner projects launched by EDB Centre for Integration Studies and RAS IMEMO — MIM CIS and DIM-Eurasia — by the end of 2016 it will become possible to perform analyses at 4 levels:

• EAEU integration nucleus;
• all post-Soviet area;
• perspective directions of geographical expansion of Eurasian integration;
• all Eurasia.

Analysis of mutual FDI in those parts of the post-Soviet area where normal transnational business is hindered by “hot” or “frozen” military and political conflicts still presents a formidable challenge. Also, corporate statistics in some of the less developed CIS countries leave much to be desired, and media reports on transactions in certain countries of Central Asia and Southern Caucasus are not always accurate. Still, our efforts to improve MIM CIS analyses continue on an ongoing basis. This year we tested a new process incorporating employment of experts who are proficient in local languages (in our maiden attempt, the Georgian language). We hope that before long it will help us to further enhance the quality of our publications.
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2012

Report 1
Comprehensive assessment of the macro-economic effect of different forms of intensive economic cooperation by Ukraine with the member states of the Customs Union and the Single Economic Space within the framework of the Eurasian Economic Community (EEC)

The main goal of the project is to assess a macro-economic effect of the creation of the Customs Union and Single Economic Space of Russia, Belarus and Kazakhstan, and to determine prospects of the development of integration links between Ukraine and the CU. The project was conducted by the team of five research institutions. The results presented in the Report have been widely recognized and become standard. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/ukraine/

Report 2
Studies of Regional Integration in the CIS and in Central Asia: A Literature Survey

This report, published under auspices of the EDB Centre for Integration Studies, summarizes both international studies in the area of regional integration within the former Soviet Union, and Russian language materials on this issue, reviewing the research papers and publications in the area of economics, political studies, international relations and international political economy, law and area studies. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/CIS_CentralAsia/

Report 3
Assessment of the economic, institutional and legal impact of labour migration agreements within the framework of the Single Economic Space

The project included analysis of two labour agreements that came into force on January 1, 2012 within the SES of Russia, Belarus and Kazakhstan. It analyzes their economic and social impact on labour migration processes, labour market and productivity, strengthening of the regional economic relations. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/labour_migration/

Report 4
EDB integration barometer 2012

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/integration_barometer/

Report 5
Threats to public finances of the CIS in the light of the current global instability

The Report deals with the assessment of the risks for the government finances of the CIS countries in the light of current world instability. The report was conducted at the request of the Finance Ministry of the Republic of Kazakhstan, and presented at the permanent council of the CIS Finance Ministers. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/risks/

Report 6
Monitoring of Mutual Investments in the Member States of the CIS

The monitoring of mutual CIS investments provides analytical support for work conducted by state and supranational agencies on developing a suitable strategy for deepening integration processes throughout the post-Soviet space. The Centre in partnership with IMEMO (RAS) has created and is regularly updating the most comprehensive database up to date. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/invest_monitoring/

Report 7
Customs Union and cross-border cooperation between Kazakhstan and Russia

Research on the economic effects of the development of industrial relations under the influence of the Customs Union in the border regions of Russia and Kazakhstan. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/kaz_rus_e/

Report 8
Unified trade policy and addressing the modernization challenges of the SES

The Report presents an analysis of the key economic risks arising under the agreement by SES participants of a foreign trade policy, formulates proposals on the main thrusts of SES Common Trade Policy, and names measures for its reconciled implementation. Available in Russian and English.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/trade_policy/

Report 9
SES+ Grain policy

Growth in grain production is propelling Kazakhstan, Ukraine and Russia to the leadership ranks of the global grain market. The Report systematically analyzes trends in development of the grain sector and actual policies and regulations in SES countries, Ukraine and other participants of the regional grain market. Available in Russian and English.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/grain_policy/

Eurasian Continental Integration

E.Vinokurov, A.Libman

This monograph analyses integration processes on the Eurasian continent. It considers prospects for and pre-requisites of a successful Eurasian integration and offers a coherent concept of Eurasian economic integration. The authors contend that Eurasian continental integration could become a key driving force in the integration of trade, energy resources and other commodities, transportation industry, the flows of capital and labour, and the counterraction to cross-boundary threats. Available in Russian and English.

Eurasian Integration: Challenges of Transcontinental Regionalism
Evgeny Vinokurov, Alexander Libman
Basingtoke: Palgrave Macmillan

“Vinokurov and Libman have pulled together a tremendous range of information and insight about Eurasian economic integration. Their eminently readable book tackles an important and timely topic, which lies at the heart of global economic and political transformation in the 21st century.”

Johannes Linn, Brookings Institute
http://eabr.org/e/research/centreCIS/monographsCIS/

Holding-Together Regionalism: Twenty Years of Post-Soviet Integration
Alexander Libman, Evgeny Vinokurov
Basingtoke: Palgrave Macmillan

An in-depth analysis of one of the most important and complex issues of the post-Soviet era, namely the (re-)integration of this highly interconnected region. The book considers the evolution of “holding-together” groups since the collapse of the Soviet Union in 1991, looking at intergovernmental interaction and informal economic and social ties.

http://eabr.org/e/research/centreCIS/monographsCIS/

2013

Report 10
Technological Coordination and Improving Competitiveness within the SES

The report presents a number of proposals aimed at improving SES competitiveness within the international division of labour.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/technological_coordination/

Report 11
The Customs Union and Neighbouring Countries: Models and Instruments for Mutually Beneficial Partnership

The report proposes a broad spectrum of approaches to the fostering of deep and pragmatic integrational interaction between the CU/SES and countries throughout the Eurasian continent.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/cu_and_neighbors/

Report 13
Labour Migration and Human Capital of Kyrgyzstan: Impact of the Customs Union

The report focuses on the effects of Kyrgyzstan’s possible accession to the Customs Union (CU) and Single Economic Space (SES) on the flows of labour resources, the volume of cash remittances, labour market conditions and professional education and training in this country.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/labor_migration_kyrgyzstan_cu/

Report 14
Tajikistan’s Accession to the Customs Union and Single Economic Space

Tajikistan’s accession to the CU and the SES will have a positive economic impact on the country’s economy. The Report includes a detailed economic analysis of the issue using various economic models and research methods.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/Tajikistan_CU_SES/

Report 15
Monitoring of Mutual Investments in the CIS

The report contains new results of the joint research project of the Centre for Integration Studies of EDB and the Institute of World Economy and International Relations of the Russian Academy of Sciences. It is aimed at the maintenance and development of the monitoring database of mutual direct investment in the CIS countries and Georgia. A general characteristic of mutual investments in the CIS at the end of 2012 is provided.

Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/

Report 16
EDB Integration Barometer — 2013

The EDB Centre for Integration Studies in cooperation with the Eurasian Monitor International Research Agency examined the approaches of population to regional integration.

Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/integration_barometer/

Report 17
Cross-Border Cooperation between Russia, Belarus and Ukraine

Cooperation between 27 cross-border regions of Belarus, Russia and Ukraine has significant potential; however the existing frontiers and barriers are a significant factor that fragments the region’s economic space.

http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project16/

Report 18
Customs Union and Ukraine: Economic and technological cooperation in sectors and industries

The authors of the report study the issue of industrial and inter-industry links between the SES economies and Ukraine and come to a conclusion that cooperation between enterprises has been maintained in practically all segments of the processing industries, while in certain sectors of mechanical engineering this cooperation has no alternatives.

Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project18/
Report 19
Monitoring of direct investments of Belarus, Kazakhstan, Russia, and Ukraine in Eurasia
The Eurasia FDI Monitoring project supplements another research by the EDB Centre for Integration Studies — Monitoring of Mutual Foreign Investment in the CIS Countries (CIS Mutual Investment Monitoring).
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project19/

Report 20
Armenia and the Customs Union: Impact of Accession
This report provides the assessment of the macroeconomic impact of Armenia joining the Customs Union.
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project20/

System of Indicators of Eurasian Integration
The System of Indicators of Eurasian Integration (SIEI) is designed to become the monitoring and assessment tool for integration processes within the post-Soviet territory.
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/siei/index.php?id_16=37610

Report 23
Quantifying Economic Integration: of the European Union and the Eurasian Economic Union: Methodological Approaches
The objective of the project is to discuss and analyse economic integration in Eurasia, both on the continental scale “from Lisbon to Shanghai”, and in the EU-EEU dimension “from Lisbon to Vladivostok.”
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project21/

Report 24
Pension Mobility within the Eurasian Economic Union and the CIS
In the report the experts evaluate the prospects of implementing effective mechanisms in the region to tackle pension problems of migrant workers.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project24/

Report 25
EDB Integration Barometer — 2014
The results of the third research into preferences of the CIS region population with respect to various aspects of Eurasian integration suggest that the “integration core” of the Eurasian Economic Union (EEU) continues to form and crystallise.
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/integration_barometer/index.php?id_16=42460

Report 26
Monitoring of mutual CIS investments 2014
This is the fifth report on the results of the long-term research project devoted to monitoring of mutual direct investments in the CIS countries and Georgia. The current report provides detailed information on the scope and structure of mutual investments of CIS countries up to the end of 2013. The report provides information on the most important trends in the first half of 2014, including the situation in Ukraine and its impact on the Russian direct investments in the country. It also presents an analysis of the prospects for mutual direct investments of the Eurasian Economic Union countries.
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/invest_monitoring/index.php?id_16=42737

Report 27
EDB Regional Integration Database
This is an applied research project, which represents the creation of a specialized regularly updated database of the most significant regional integration organisations (RIOs) and economic/trade agreements of the world.
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project26/

Report 28
Monitoring of direct investments of Russia, Belarus, Kazakhstan and Ukraine in Eurasia — 2014
The second report presents new results of the permanent annual project dedicated to monitoring of direct investments of Belarus, Kazakhstan, Russia and Ukraine in Eurasia. On the basis of the statistics collected during monitoring, detailed information is provided on the dynamics, actual geographical location and sectoral structure of the investments.
Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/project24/
Report 29
An Assessment of the Economic Effects of Lifting Non-Tariff Barriers in the EEU

The EDB Centre for Integration Studies publishes the first comprehensive assessment of the effects of non-tariff barriers on mutual trade in the EEU and provides recommendations as to how to remove them. The report has been prepared by the Centre for Integration Studies based on a poll of 530 Russian, Kazakh and Belarusian exporters. Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=47863&linked_block_id=0

Report 30
An Assessment of the Impact of Non-Tariff Barriers in the EEU: the Results of the Survey of Exporters

A large-scale poll of 530 enterprises in Belarus, Kazakhstan and Russia suggests that non-tariff barriers account 15% to 30% of the value of exports. Belarusian exporters estimate non-tariff barriers in their trade with Russia and Kazakhstan at 15% of the value of their exports. Kazakh exporters at 16% for exports to Russia and 29% for exports to Belarus, and Russian exporters at about 25% for exports to each of the two other countries. Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=47864&linked_block_id=0

Report 31
Labour Migration and Labour-Intensive Industries in Kyrgyzstan and Tajikistan: Possibilities for Human Development in Central Asia

Current research deals with the analysis of migration flow, labour potential in Central Asia (the examples of Kyrgyzstan and Tajikistan are taken). The focus is made on the possibilities of both countries to reorient their economies from export of labour to export of labour-intensive goods and services.
http://www.eabr.org/e/research/centre/projectsCII/projects_ci/index.php?id_4=47875&linked_block_id=0

Report 32
Monitoring of Mutual Investments in CIS Countries 2015

According to the sixth report of a years-long research project in 2014 the fall in mutual foreign direct investments (FDI) between the CIS countries was $6.3 billion, or 12% year-on-year. One of the main causes for this drastic decline in all mutual FDI in the CIS was the destabilised economic and political situation in Ukraine. At the same time, while overall investment activity in the CIS has shrunk, the young integration organization – the Eurasian Economic Union (EAEU) – demonstrates stability. Even despite the devaluation of national currencies, mutual FDI in the EAEU region in 2014 grew from $24.8 billion to $25.1 billion. The positive dynamics in investment flows in the EAEU was largely due to the advancement and strengthening of regional economic integration. Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=48979&linked_block_id=0

Report 33
EDB Integration Barometer — 2015

The fourth wave of public opinion surveys on integration preferences in the CIS countries suggests that the “integration core” of the Eurasian Economic Union (EAEU) continues to consolidate. In Kazakhstan, Russia and the Kyrgyz Republic 78-86% of the population support the Eurasian integration. At the same time, in Belarus and Armenia the rate of approval of Eurasian integration reduced in the recent year. These are the findings of The EDB Integration Barometer, a yearly research conducted by Eurasian Development Bank’s (EDB) Centre for Integration Studies. In 2015, over 11,000 people from nine CIS region countries - Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, and Ukraine - took part in the poll. The research has been conducted by the EDB Centre for Integration Studies since 2012 in partnership with “Eurasian Monitor”, an international research agency. Available in Russian and English.
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=48997&linked_block_id=0

Report 34
EAEU and Eurasia: Monitoring and Analyses of Direct Investments

The report presents new results of the permanent annual project dedicated to monitoring of direct investments in Eurasia. This report focuses on direct investments of Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments of Austria, Netherlands, Turkey, Iran, India, Vietnam, China, the Republic of Korea, and Japan in the seven CIS countries mentioned above. Available in Russian and English.
http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49144&linked_block_id=0

Report 35
Forecasting System for the Eurasian Economic Union

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank. This work builds upon the findings of the joint research undertaken by the Eurasian Development Bank (EDB) and the Eurasian Economic Commission (EEC) to create a system capable of generating economic forecasts for EAEU member states, subject to any applicable country-specific social components. The project has yielded an Integrated System of Models covering five countries. It can be used to analyze economic processes, make projections, and develop proposals and guidance on streamlining economic policies within the EAEU. Available in Russian and English.
http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49199&linked_block_id=0
**Report 36**

**Liberalization of the Republic of Belarus Financial Market within the EAEU**

The development of the EAEU requires a coordinated foreign exchange policy, harmonized regulations governing the financial market, and the establishment of a common financial market to ensure the free movement of capital between the member states. The single financial market will produce significant economic effects such as increased investments in the common market, maximized returns, broader risk distribution, and lower borrowing costs, especially for smaller economies. Belarus will benefit from its movement towards a single financial market in the EAEU. However, this also creates certain challenges. These findings of Eurasian Development Bank’s (EDB) Centre for Integration Studies are presented in the report Liberalisation of the Republic of Belarus Financial Market within the EAEU.

Available in Russian and English.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49256

**Report 37**

**Regional Organizations: Typology and Development Paths**

The report presents the results of the EDB Centre for Integration Studies’ ongoing project “Regional Integration in the World.” One of the aims of this project is comprehensive analysis of regional integration organizations in the world and later application of the findings in facilitating the processes of Eurasian integration. The report Regional Organizations: Typology and Development Paths provides the key conclusions and recommendations which are based on a detailed review of sixty organizations.

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49351

**Report 38**

**European Union and Eurasian Economic Union: Long-Term Dialogue and Perspectives of Agreement**

This report presents preliminary results of conceptual analysis of developing EU-EAEU economic relations and search of practical approaches to achieving that goal. This work is processed by the International Institute for Applied Systems Analysis (IIASA, Austria) and the Centre for Integration Studies of Eurasian Development Bank (EDB) within long-term ongoing joint project “Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space.”

http://eabr.org/e/research/centreCIS/projectsandreportsCIS/index.php?id_4=49507
Eurasian Development Bank (EDB) is an international financial organization established to promote economic growth in its member states, extend trade and economic ties between them and to support integration in Eurasia by implementing its investment projects. The Bank was conceived by the Presidents of the Russian Federation and the Republic of Kazakhstan and established in 2006. EDB member states include the Kyrgyz Republic, the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Republic of Tajikistan, and the Russian Federation.

Facilitation of integration in Eurasia as well as information and analytical support thereof are among the most important goals of the Bank. In 2011 EDB Centre for Integration Studies was established. The key objectives of the Centre are as follows: organization of research, preparation of reports and recommendations to the governments of EDB member states on the matters of regional economic integration.

Over the last five years, EDB Centre for Integration Studies has proved itself as a leading analytical think-tank dealing with the issues of Eurasian integration. In partnership with the experts, research centers and institutions, the Centre has published 39 reports and prepared more than 50 insights and briefs for Presidential Executive Offices, Ministries of EDB member states, and the Eurasian Economic Commission.

More detailed information about EDB Centre for Integration Studies, its projects, publications, research fields, as well as electronic versions of its reports is available on the website of the Eurasian Development Bank at:
http://www.eabr.org/e/research/centreCIS/aboutCIS/index.php

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This report is the seventh in a series of publications presenting the findings of a permanent research project concerned with the monitoring of mutual investments in CIS countries and Georgia. The analysis is built on a database that has been maintained on the basis of diverse data obtained from publicly available sources. The database is generated “from the bottom up”, as its creators rely on corporate statements and other primary information. As a result, the project makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations”, and reinvested foreign profits. The report contains detailed information on the scope, dynamics, geographical and sectoral structure of mutual investments in CIS countries and Georgia as of the end of 2015. Special effort was made to thoroughly analyze mutual direct investments of companies representing member states of the EAEU. The authors also consider, for the first time, mutual cross-border portfolio investments and long-term credits.

Electronic version of the report is available on the Eurasian Development Bank’s website at: http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/invest_monitoring/