

EAEU AND EURASIA: MONITORING AND ANALYSIS OF DIRECT INVESTMENTS 2017



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MONITORING AND ANALYSIS
OF DIRECT INVESTMENTS
2017

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This report presents the latest findings of a research project on the monitoring of direct investments in Eurasia, which is being implemented by the EDB Centre for Integration Studies and the Institute of World Economy and International Relations of the Russian Academy of Sciences. It complements the monitoring of mutual investments in the countries of the Commonwealth of Independent States (CIS), another project under way since 2011, and covers direct investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia, and including Egypt. The authors also review reciprocal direct investments made by Austria, the Netherlands, Serbia, Turkey, Egypt, Saudi Arabia, the UAE, Israel, Iran, India, Singapore, Vietnam, Mongolia, China, South Korea, and Japan in the eight CIS countries listed above. Based on statistical data collected in the course of the monitoring exercise, the authors provide detailed information on the evolution, actual geographical localisation, and sectoral makeup of the capital investments under review.

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TABLE OF CONTENTS

LIST OF TABLES AND FIGURES	4
ACRONYMS AND ABBREVIATIONS	5
SUMMARY	6
INTRODUCTION	13
1. DESCRIPTION OF THE DIM-EURASIA DATABASE	14
1.1. Scale and Evolution of FDI Recorded in the DIM-Eurasia Database	14
1.2. Main Parameters of Investment Projects in the DIM-Eurasia Database	17
2. DIRECT INVESTMENTS BY CIS COUNTRIES IN THE EURASIAN CONTINENT	21
2.1. Distinguishing Features of Russian FDI in Eurasian Countries	21
2.2. FDI in Eurasia Originating from Other EAEU Countries	28
2.3. Azerbaijani Investments: Domination of Companies with State Equity Participation	30
2.4. Ukrainian FDI as a Reflection of the Situation in the Country	33
3. DIRECT INVESTMENTS BY EURASIAN COUNTRIES IN THE POST-SOVIET AREA	35
3.1. Dutch FDI: Local TNCs vs. Foreign Holdings	35
3.2. “Return” of Austrian FDI to Russia and Other CIS Countries	38
3.3. Significance of Investment Cooperation between the EAEU and Serbia	41
3.4. Chinese FDI in the Post-Soviet Area	43
3.5. FDI Originating from Other Northeast Asian Countries	46
3.6. Vietnamese and Singaporean FDI in CIS Countries: Prospects	49
3.7. Indian FDI in CIS Countries: Underutilised Potential	51
3.8. Turkish FDI: Overcoming Negative Political Consequences	52
3.9. FDI Originating from Other Middle Eastern Countries	57
CONCLUSION	61
REFERENCES	62

LIST OF TABLES AND FIGURES

Table 1. DIM-Eurasia Database Parameters, 2008–2016	15
Table 2. Ten Largest Transactions in the DIM-Eurasia Database (End of 2016)	19
Table 3. Comparison of DIM-Eurasia and CBR Data on Russian Outward FDI Stock in Key Recipient Countries	24
Table 4. Comparison of DIM-Eurasia and CBR Data on FDI Stock in Russia	37
Figure A. Changes in Chinese Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion.	7
Figure B. Changes in Turkish Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion.	9
Figure C. Changes in Russian Outward FDI in the Regions of Eurasia in 2008–2016 (DIM-Eurasia Data), \$ billion	10
Figure D. Share of Russian Capital Investments in Total FDI Stock in Eurasian Countries at the End of 2016, %	11
Figure 1. Number and Distribution of DIM-Eurasia Database Projects by Time of Commencement	16
Figure 2. Distribution of DIM-Eurasia Database Projects by FDI Stock Value	17
Figure 3. Sectoral Structure of FDI Registered in the DIM-Eurasia Database (End of 2016), %	18
Figure 4. Sectoral Structure of Russian FDI Registered in the DIM-Eurasia Database (End of 2016), %	22
Figure 5. Changes in Russian Outward FDI in the Regions of Eurasia in 2008–2016 (DIM-Eurasia Data), \$ billion	22
Figure 6. Share of Russian Capital Investments in Total FDI Stock in Eurasian Countries at the End of 2016, %	25
Figure 7. Changes in Value and Geography of Azerbaijani FDI Stock (2008–2016), \$ billion.	31
Figure 8. Sectoral Structure of “Real” Dutch FDI Registered in the DIM-Eurasia Database (End of 2016), %	36
Figure 9. Changes in Austrian Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion.	39
Figure 10. Sectoral Structure of Austrian Outward FDI in Russia (End of 2016), %	40
Figure 11. Changes in Chinese Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion.	44
Figure 12. Changes in Indian Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion.	52
Figure 13. Changes in Turkish Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion.	53
Figure 14. Sectoral Structure of Turkish Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine (End of 2016), %	57

ACRONYMS AND ABBREVIATIONS

CBR — Central Bank of the Russian Federation (Bank of Russia)

CIS — Commonwealth of Independent States

DIM-Eurasia — monitoring of direct investments by EAEU countries, Azerbaijan, Tajikistan, and Ukraine in Eurasian countries outside the CIS and Georgia

EAEU — Eurasian Economic Union

EBRD — European Bank for Reconstruction and Development

EDB — Eurasian Development Bank

EU — European Union

FDI — foreign direct investment

FEZ — free economic zone

FTA — Free Trade Area

IMEMO — Primakov National Research Institute of World Economy and International Relations (Russian Academy of Sciences)

IPO — initial public offering

IT — Information Technologies

JV — joint venture

MIM CIS — monitoring of mutual investments by CIS countries and Georgia

OECD — Organisation for Economic Cooperation and Development

RDIF — Russian Direct Investment Fund

SOCAR — State Oil Company of the Azerbaijan Republic

SOFAZ — State Oil Fund of the Republic of Azerbaijan

TANAP — Trans-Anatolian Natural Gas Pipeline

TAP — Trans-Adriatic Pipeline

TNC — transnational corporation (company)

UNCTAD — United Nations Conference on Trade and Development

Summary

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

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

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

- **Inward FDI stock** originating from the 16 countries featured in the DIM-Eurasia Database (primarily China, the Netherlands, Japan, India, Austria, and Turkey) and invested in EAEU states, Azerbaijan, Tajikistan, and Ukraine **continues to grow**. By the end of 2016, its accumulated value increased by 11.8% (vs. 3% in 2015), reaching \$128.9 billion.
- **China continues to expand its economic presence in EAEU countries and other CIS states, retaining its leadership among Asian countries in terms of FDI stock in the region.** At the end of 2016, FDI stock accumulated by Chinese TNCs in the five EAEU countries, Azerbaijan, Tajikistan, and Ukraine amounted to **\$33.7 billion**, a 12.7% year-on-year increase. The bulk of direct capital investments originating from China is concentrated in Kazakhstan, with an FDI stock of **\$21.5 billion** (Figure A).
- **The shares of Russia, Tajikistan, and Belarus in Chinese outward FDI have increased.** Over the last six years, the share of Kazakhstan has decreased from 92% to 64%, while the shares of Russia and Tajikistan have, conversely, increased from 4% to 24% and from 1% to 6%, respectively. The last three years have witnessed an upsurge of interest demonstrated by Chinese investors in Belarus and, to a lesser extent, Kyrgyzstan.
- **Russia is becoming the priority target for new projects by Chinese investors.** In 2016, five out of eight new projects with Chinese FDI in the EAEU were in Russia. On the whole, Chinese FDI stock in the Russian economy amounted to \$8.2 billion, having increased in 2016 by \$3 billion, or 57.5%. **The key target sector for most**

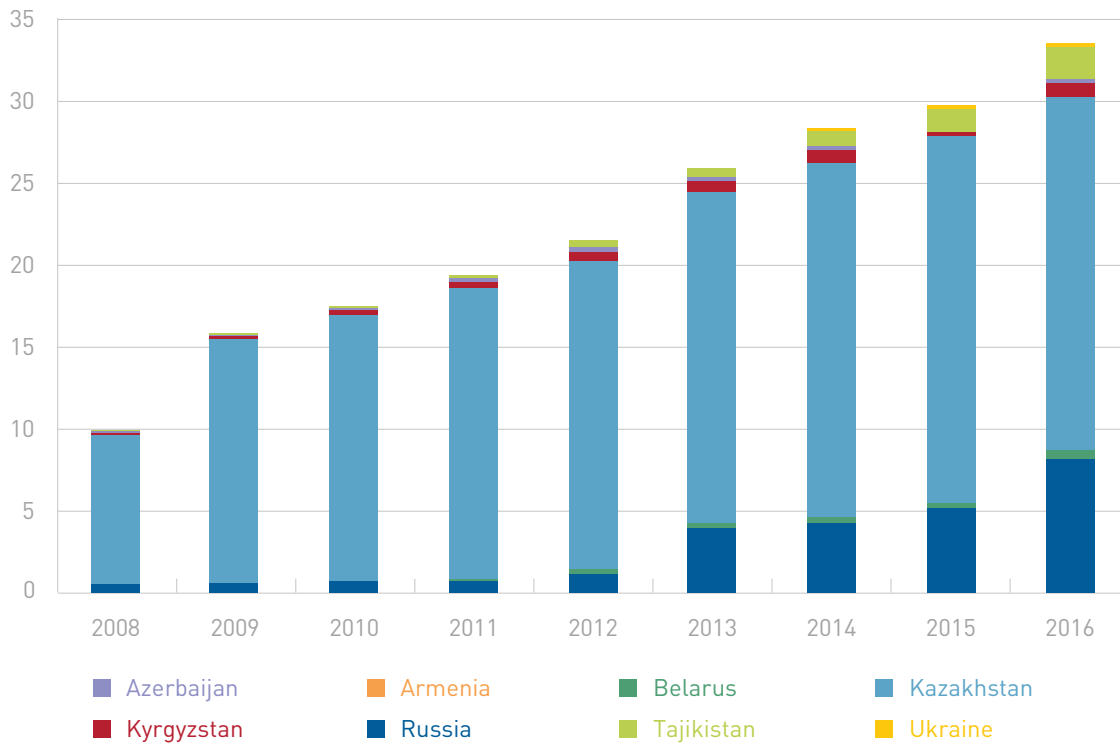


Figure A.
Changes in Chinese Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion

Chinese investors is Oil and Gas, although its share followed a persistent downward trend, having declined from 86.8% in 2010 to 74.1% in 2016. This was partially attributable to the growth of FDI in Chemicals and Non-Ferrous Metals. However, neither sector's share has yet exceeded 5%. Over the last six years, a significant inflow of investment capital into Construction and Mechanical Engineering has occurred. Agriculture and Food Products (processing of agricultural raw materials) has shown vibrant growth for the last three years. The share of FDI in Transport, on the other hand, has declined.

- **For the time being, Japan maintains the largest FDI stock in Russia among Asian countries.** In 2016, the Russian economy received \$15.1 billion of Japanese FDI compared to \$14.8 billion in 2015. Russia's share in the total FDI stock in the countries under review has not changed, remaining stable at 96%. As for the other EAEU and Central Asian countries, Japanese companies have assumed a wait-and-see stance, and are now busy sizing up the most promising projects. Russian Oil and Gas accounts for 65% of total investment stock accumulated by Japanese TNCs in post-Soviet states, closely followed by manufacturing.
- **Following the establishment of an EAEU-Vietnam free trade area, Vietnamese companies have notched up their economic activity in EAEU countries.** However, so far all Vietnamese outward FDI has been concentrated in Russia: at the end of 2016, total stock amounted to \$667 million, having increased by 23% relative to 2015.

Direct Vietnamese capital investments in Russia are distributed among three sectors: Oil and Gas (81%), Construction (12%), and Agriculture and Food Products (6%).

- **Singapore continues to boost its FDI in the EAEU.** By the end of 2016, Singaporean FDI stock in the EAEU had increased by 15% to exceed \$800 million, with Russia and Kazakhstan getting \$786 million and \$15 million, respectively. Singaporean FDI stock in the EAEU is evenly distributed among three sectors: Transport, Agriculture and Food Products, and Construction. The growing interest that Singaporean TNCs are showing in the EAEU subject to the possible start of free-trade-area negotiations creates an opportunity to realise, over the course of the next several years, a huge potential to attract additional foreign capital investments, which will probably focus on the most sophisticated industries.
- **The interests of South Korean companies in the post-Soviet area are centred mostly around two EAEU countries—Kazakhstan and Russia.** It is notable that Russia is not the primary recipient of South Korean FDI (unlike with Japanese direct capital investments), even though it holds a hefty 39% share (\$2.1 billion). The bulk of foreign investment capital has gone to Kazakhstan—\$3.1 billion, or 58% of total South Korean outward FDI in the post-Soviet area. Out of the sectors registered in the DIM-Eurasia Database, Oil and Gas, Mechanical Engineering, and Agriculture and Food Products account for most of the FDI originating from South Korea. No South Korean FDI is in Russian Oil and Gas.
- **Turkey continues to steadily increase its FDI despite the loss of one year to the crisis in its relations with Russia, and the rather anaemic macroeconomic metrics in most CIS countries.** Total Turkish outward FDI stock has reached \$11.6 billion, a 4% year-on-year increase (Figure B). Kazakhstan was the centre of attraction for Turkish FDI in 2016, with direct capital investments by Turkish TNCs in the Kazakhstan economy up by 34%, or \$315 million. Russia has increased Turkish FDI stock by 2%, while Azerbaijan, one of the key investment partners of Turkey, has lost 0.5% of direct capital investments by Turkish TNCs. Stability of investment flows originating from Turkey is largely attributable to the **high degree of diversification** of Turkish FDI: capital of Turkish origin is represented in almost all recipient sectors.
- **Capital investments by most other Southwest Asian and South Asian countries in the EAEU are modest in terms of total value, and lopsided in sectoral structure.** India invests mostly in Russian Oil and Gas; however, the real investment potential of the Indian corporate sector remains a mystery. Iranian investments in CIS countries go primarily to Azerbaijan (Oil and Gas). Saudi Arabia has a rather insignificant presence in Kazakhstan, while Russia has received no Saudi FDI at all (however, a breakthrough may be achieved following the historic 2017 visit by the King of Saudi Arabia to Russia).
- **UAE investors have considerably increased their FDI in the EAEU, with Kazakhstan as their chief partner.** Total UAE direct investment in that country amounts to almost \$1.5 billion out of a total of \$2 billion in the entire post-Soviet area. There are about 200 businesses with UAE equity participation currently operating in Kazakhstan.

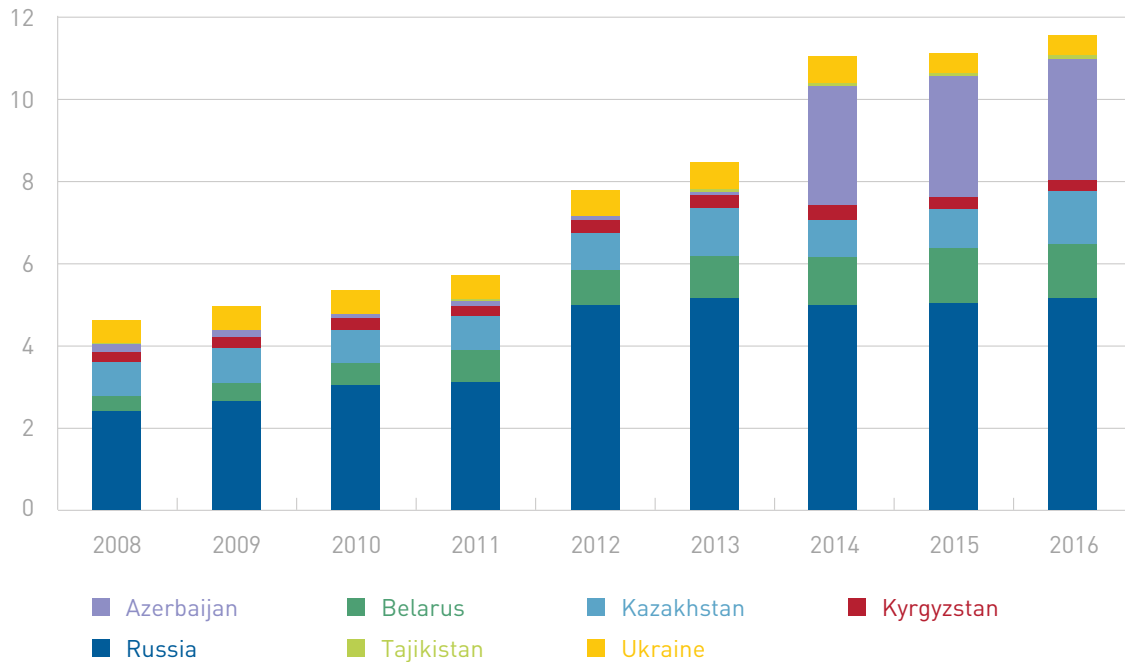


Figure B.
Changes in Turkish
Outward FDI
in EAEU Countries,
Azerbaijan,
Tajikistan,
and Ukraine,
2008–2016, \$ billion

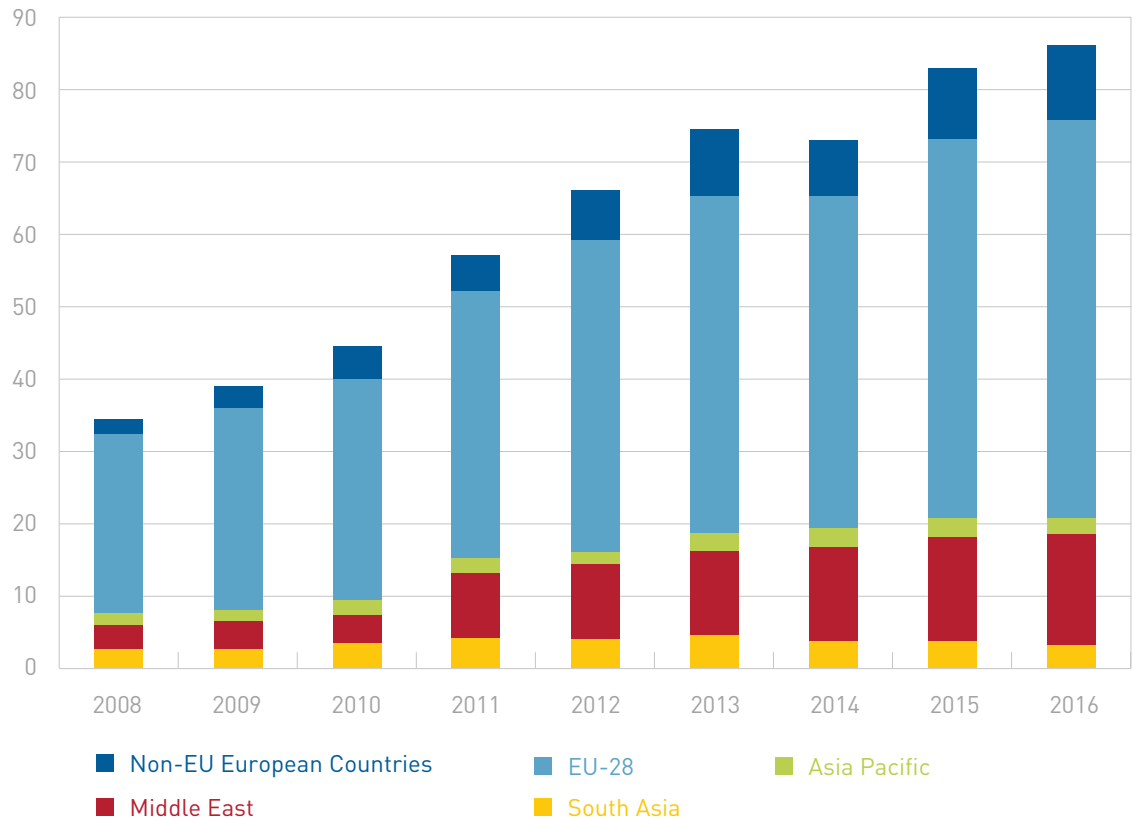
Moreover, over the last several years, **Kazakhstan has been quite successful in attracting investors from the Middle East, South Asia, and Pacific Asia.** In 2016, UAE FDI stock in Russia increased by \$0.6 billion compared to zero FDI in previous years.

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

Outward FDI Originating from the EAEU, Azerbaijan, Tajikistan, and Ukraine

- **EAEU countries, Azerbaijan, Tajikistan, and Ukraine continue to increase their outward FDI in non-CIS Eurasian countries.** In 2016, that indicator rose by 8%, or by \$8.4 billion. In 2008–2016, total outward FDI stock originating from the CIS countries under review grew by a factor of 2.6, with Russia and Azerbaijan being the best performers.
- **Russia is currently not particularly interested in investing in East and Southeast Asia (Figure C).** Over the last year, Russian outward FDI stock in that region took a slight dive following steady growth by a total of 46% over the eight-year period under review. Last year's most notable events were the sharp decline of Russian FDI in Mongolia (by a factor of 29), India (by one third), and Lithuania (by one half), as opposed to Egypt, where Russian investment presence grew by 45% to \$3.3 billion.
- **Percentage shares of Russian FDI in Asian countries are often higher than in European countries.** Despite the importance of European countries as recipients of Russian FDI, the share of Russian capital investments in total FDI stock is higher in a number of Asian countries (see Figure D). However, while in the post-Soviet area and the Balkans, the key factors are the “neighbourhood effect” and the absence of linguistic, cultural or informational barriers, in Asia the critical factor is political.

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



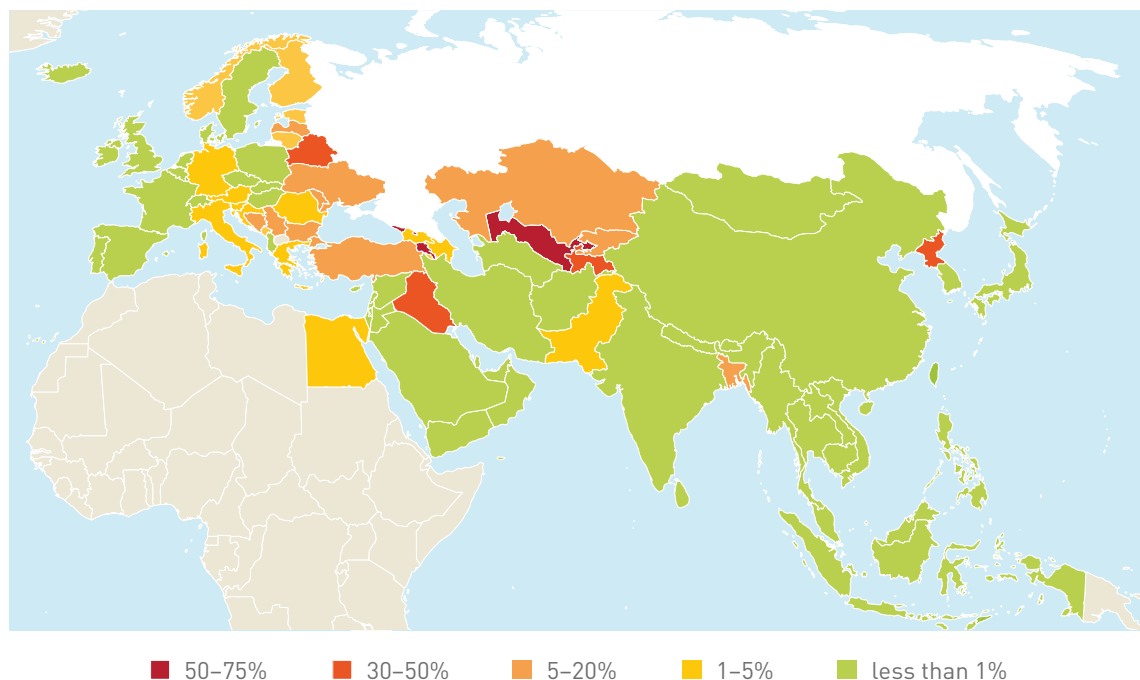


Figure D.
Share of Russian
Capital Investments
in Total FDI Stock
in Eurasian Countries
at the End of 2016, %

Source: in-house calculations based on DIM-Eurasia and MIM CIS Databases; UNCTAD.

- **European countries remain the main recipients of Kazakhstani outward FDI, with 85% of total Kazakhstani FDI stock in Eurasian countries.** According to our data, in 2016 Kazakhstani outward FDI stock in non-CIS Eurasian countries amounted to almost \$6.5 billion. Oil and Gas remains Kazakhstan’s key international specialisation sector, invariably accounting for more than half of its total FDI. The second position is held by Wholesale and Retail Trade (more than one fourth of total outward FDI), the third position by Tourism (more than one fifth of total outward FDI). Romania is the main recipient of Kazakhstan’s direct investment (\$4.9 billion).
- **Azerbaijan is the top capital exporter among non-EAEU CIS countries.** Over the last five years, the average annual increase of Azerbaijani FDI in non-CIS Eurasian countries was 41%. By the end of 2016, total Azerbaijani outward FDI stock in the region reached \$16.9 billion. Almost three-fourths of all Azerbaijani investments are concentrated in Turkey, even though the UAE and certain European countries have also received sizeable Azerbaijani investment capital injections. 82% of Azerbaijani FDI went into Oil and Gas and related projects, and 15% into real estate deals. There are almost no investments in foreign production projects not related to Oil and Gas.

Outlook for Future Investment Flows in Eurasia over the Next 1–3 Years:

- **China** will continue to actively increase its investment presence in EAEU countries, and particularly in Russia, where Chinese TNCs will be acquiring assets not only in Oil and Gas and Chemicals, but also in other industrial sectors. A considerable upsurge of investment activity is anticipated in mining.
- Resolution of the political conflict between **Turkey** and Russia will enable a revival of Turkish TNC operations in the EAEU. We anticipate Turkish FDI to post modest but steady growth in Russia, Kazakhstan, and Belarus.
- A breakthrough in economic interactions is possible between **Saudi Arabia** and Russia. Inflow of Saudi FDI over the next several years is estimated at \$8–10 billion.
- **India** will continue to invest in Russia and Kazakhstan, but Indian TNCs will be losing in their competition with China.
- **Russia** will retain its assets in Europe, but no significant growth is expected.
- **Russian** FDI has good growth prospects in Iran (Oil and Gas, Transport Engineering), India (Services), and Vietnam (impact of the investment section of the FTA).
- **Azerbaijan** is turning into a significant capital exporter.

Introduction

The DIM-Eurasia partnership project is being jointly implemented by the EDB Centre for Integration Studies and IMEMO as a supplement to the MIM CIS research program (see, for example, EDB Centre for Integration Studies, 2017). The project is dedicated to monitoring and analysis of reciprocal direct investment flows from the eight CIS countries (the EAEU five, plus Azerbaijan, Tajikistan, and Ukraine) to non-CIS Eurasian states, and from certain Eurasian countries to the eight post-Soviet states listed above. Initially, the DIM-Eurasia project covered only FDI from Russia, Belarus, Kazakhstan, and Ukraine to countries of Europe and East Asia (EDB Centre for Integration Studies, 2013); in 2015–2016, the number of CIS countries under review was increased (EDB Centre for Integration Studies, 2016). Geographical coverage of recipient countries was expanded concurrently: while at the beginning only Europe and East Asia were included, in 2014 the project was extended to embrace all Eurasian countries other than CIS countries and Georgia, and in 2017 even Egypt (which, incidentally, is partially located in Eurasia and, as a North African state, historically belongs to the Middle East). Parallel to that, in 2014 DIM-Eurasia Database experts initiated a review of reciprocal direct investments by investors from certain other countries critical for understanding the true potential of Eurasian corporate integration (EDB Centre for Integration Studies, 2014). The list keeps growing—now it includes 16 countries: the Netherlands, Austria, Turkey, the UAE, Iran, India, Singapore, Vietnam, China, South Korea, Japan, as well as (since 2017) Serbia, Egypt, Saudi Arabia, Israel, and Mongolia.

Despite the ongoing expansion of the DIM-Eurasia Database geographical footprint, its methodology for collecting FDI data (originally developed as part of the MIM CIS project) remains basically unchanged (for more details, see EDB Centre for Integration Studies, 2012). One of the DIM-Eurasia Database's salient features is that capital investment records feature the actual physical location of the assets, rather than by the first country to formally receive the relevant FDI (often, those are offshore areas)—this method is now widely used in OECD countries. Assessment of capital investments is performed mostly in accordance with recommendations published by international organisations, subject, however, to a more extensive use of indirect FDI assessment methods (for example, based on review of the long-term assets of the company, or information about similar deals completed by other companies), which is justified by the relatively low information transparency of corporate investors from post-socialist countries. The project covers all projects with FDI stock in excess of \$3 million, and a number of projects with smaller investments (particularly in low capital intensity industries). The threshold used by the DIM-Eurasia Database makes it possible to keep track of FDI geography (with the notable exception of Real Estate).

The general structure of the report is consistent with previous publications. As before, the first part presents a general description of the database. The second part dwells on the distinguishing features of CIS FDI in Eurasian countries. The third part is dedicated to reciprocal FDI flows from Eurasian countries to EAEU member states, Azerbaijan, Tajikistan, and Ukraine.

1. Description of the DIM-Eurasia Database

Monitoring and analysis of direct investments by EAEU countries and other states of the Eurasian continent (DIM-Eurasia) are ongoing EDB Centre for Integration Studies' projects on which the IMEMO research team has been working since 2013.

Due to further expansion of the geographical footprint of the DIM-Eurasia Database, the number of projects reviewed in this report has yet again increased vis-à-vis its previous version, this time by almost 23%. We currently cover 1,418 projects, including 958 projects with FDI in excess of \$3 million as at the end of 2016 (this is the minimal threshold which triggers inclusion of a project in the DIM-Eurasia Database). In this regard, 44% of the projects included in the database (626 projects, including five joint projects with the participation of investors from other CIS countries) involve Russian companies, and account for more than 35% of total recorded FDI stock. Projects with reciprocal FDI (573) represent 40% of the total number of projects, and more than 53% of total investment stock. It should be stressed that the key feature of the DIM-Eurasia Database is that it enables a geographical FDI analysis based on actual asset locations. In this respect, DIM-Eurasia statistics have a clear advantage over the data collected by the CBR and many other official bodies that keep records of direct capital investments in the post-Soviet area.

1.1. Scale and Evolution of FDI Recorded in the DIM-Eurasia Database

At the end of 2016, the total FDI stock recorded in the DIM-Eurasia Database amounted to \$242.3 billion. Over the eight-year observation period (from the end of 2008 to the end of 2016), that indicator, as it applies to current geographical coverage, has increased by a factor of 2.4, demonstrating steady growth along the way. The smallest FDI stock increase was registered in 2014 (+4.5%). In 2016, total FDI stock went up by 10% (see Table 1).

Investments by the five EAEU countries plus Azerbaijan and Ukraine in Eurasian countries outside the CIS and Georgia accounted for almost 47% of total FDI registered in the DIM-Eurasia Database (we did not identify any Tajikistani projects with FDI in excess of at least \$3 million outside the post-Soviet area). Over the eight-year observation period, the aggregate indicator for the CIS countries under review has grown by a factor of 2.6. The best performers are Russia and (outside the EAEU) Azerbaijan. In comparison, over the last eight years, Chinese outward FDI stock in EAEU countries, Azerbaijan, Tajikistan, and Ukraine has increased by a factor of 3.3, Dutch stock by a factor of 3, Turkish stock by a factor of 2.5, with the aggregate for the 16 Eurasian countries under review up only by a factor of 2.3. The largest absolute increase of FDI stock in EAEU countries, Azerbaijan, Tajikistan, and Ukraine was posted by China (by \$23.6 billion). The largest relative increase of FDI stock was shown by the UAE (40.5-fold growth, by almost \$2 billion).

1. DESCRIPTION OF THE DIM-EURASIA DATABASE

Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total FDI stock recorded in DIM-Eurasia Database, year-end, \$ billion	100.3	117.2	130.1	151.6	174.3	196.6	205.5	220.3	242.3
FDI stock accumulated by EAEU countries, Azerbaijan, Tajikistan, and Ukraine in Eurasian countries outside the CIS and Georgia, \$ billion	43.5	49.2	55.2	68.9	80.0	91.5	93.5	105.0	113.4
<i>FDI stock accumulated by EAEU countries in Eurasian countries outside the CIS and Georgia, \$ billion</i>	37.7	43.4	49.1	61.8	71.4	80.6	79.9	89.5	93.1
<i>FDI stock accumulated by Russia in Eurasian countries outside the CIS and Georgia, \$ billion</i>	34.1	38.6	44.0	56.6	65.6	74.0	72.6	82.4	85.7
FDI stock accumulated by Austria, the Netherlands, Serbia, Israel, Egypt, Turkey, the UAE, Saudi Arabia, Iran, India, Singapore, Vietnam, China, Mongolia, South Korea, and Japan in EAEU countries, Azerbaijan, Tajikistan, and Ukraine, \$ billion	56.8	67.9	74.8	82.6	94.3	105.1	111.9	115.3	128.9
<i>FDI stock accumulated by China in the 8 countries listed above, \$ billion</i>	10.1	16.0	17.6	19.5	21.6	26.0	28.4	29.9	33.7
<i>FDI stock accumulated by the Netherlands in the 8 countries listed above, \$ billion</i>	10.3	11.0	11.8	13.5	15.6	18.2	21.3	26.9	30.9
<i>FDI stock accumulated by Japan in the 8 countries listed above, \$ billion</i>	9.3	10.5	11.2	11.9	14.0	15.5	15.4	15.4	15.6
<i>FDI stock accumulated by India in the 8 countries listed above, \$ billion</i>	9.5	11.4	11.3	11.4	11.7	12.0	11.8	9.7	12.7
<i>FDI stock accumulated by Austria in the 8 countries listed above, \$ billion</i>	7.4	8.3	10.7	12.0	13.5	13.4	12.1	10.7	12.2
<i>FDI stock accumulated by Turkey in the 8 countries listed above, \$ billion</i>	4.6	4.9	5.3	5.7	7.8	8.4	11.0	11.1	11.6

Table 1.
DIM-Eurasia Database Parameters, 2008–2016

In terms of total value of inward FDI registered in the DIM-Eurasia Database, the leading position is held by Russia, with \$60.7 billion worth of FDI at the end of 2016. This represents 47% of all FDI stock in the eight CIS countries recorded in the database (total: \$128.9 billion), and almost 52% of total FDI stock accumulated in the EAEU by the 16 Eurasian states under review (total: \$117 billion). The second position among CIS countries in terms of total FDI from Austria, the Netherlands, Serbia, and 13 Asian states is held by Kazakhstan (\$48.8 billion); over the last eight years, this indicator has tripled in absolute terms, increasing the share of Kazakhstan among the eight CIS countries monitored within the framework of the DIM-Eurasia project from 28.5% at the end of 2008 to 37.9%. Kazakhstan was followed by Belarus (\$6.2 billion), Ukraine (\$5.6 billion), Azerbaijan (almost \$4 billion), Tajikistan (\$2.3 billion), and Kyrgyzstan (\$1.2 billion). It is noteworthy that the lowest inflow of FDI (\$74 million, primarily from neighbouring Iran) was posted by Armenia.

In terms of the value of CIS countries' outward FDI stock in Eurasian states outside the post-Soviet area, the top five include Turkey (\$21.9 billion, or 19.3%), Italy (\$16.9 billion, or 14.9%), Germany (\$12.1 billion, or 10.7%), United Kingdom (\$9.4 billion, or 8.3%), and Romania (\$6.6 billion, or 5.8%). The remaining 60 or so states collectively account for only 41% of the \$113.4 billion. At the end of 2016, the indicator exceeded \$1 billion for Switzerland, Iraq, Bulgaria, Egypt, Serbia, France, Austria, Norway, Finland, Poland, Belgium, Latvia, Pakistan, the Czech Republic, Bangladesh, Vietnam, and the Netherlands. Certain Asian countries with a generally very high foreign investor appeal, such as the People's Republic of China, the Hong Kong Special Administrative Region of the People's Republic of China, and Singapore, have proven to be rather modest recipients of outward FDI originating from CIS countries, with \$237 million, \$39 million, and \$27 million, respectively. Unimpressive FDI inflow was posted by such major economies as those of India (\$632 million), Japan (\$460 million), and South Korea (\$416 million).

All in all, the DIM-Eurasia Database contains records on 1,231 ongoing projects (including those launched in 2017), and 187 terminated projects. The number of new transactions registered during the five years preceding the global economic crisis turned out to be lower than in 2008–2012 (see Figure 1), which testifies to the delayed internationalisation of many post-Soviet countries. Unlike the MIM CIS Database, the DIM-Eurasia Database contains relatively few records of terminated projects, which is probably because investment projects initiated by Eurasian companies willing to invest in the post-Soviet area are generally better substantiated. Indeed, about half of all terminated projects were related to investment activities of Russian companies outside the CIS.

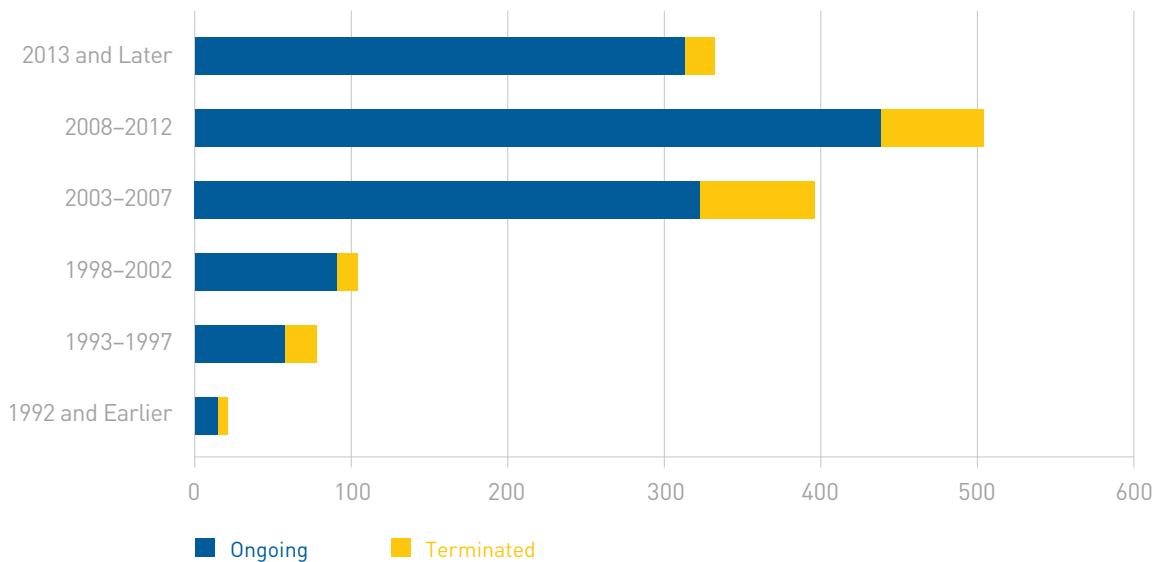


Figure 1.
Number and
Distribution of
DIM-Eurasia
Database Projects
by Time of
Commencement

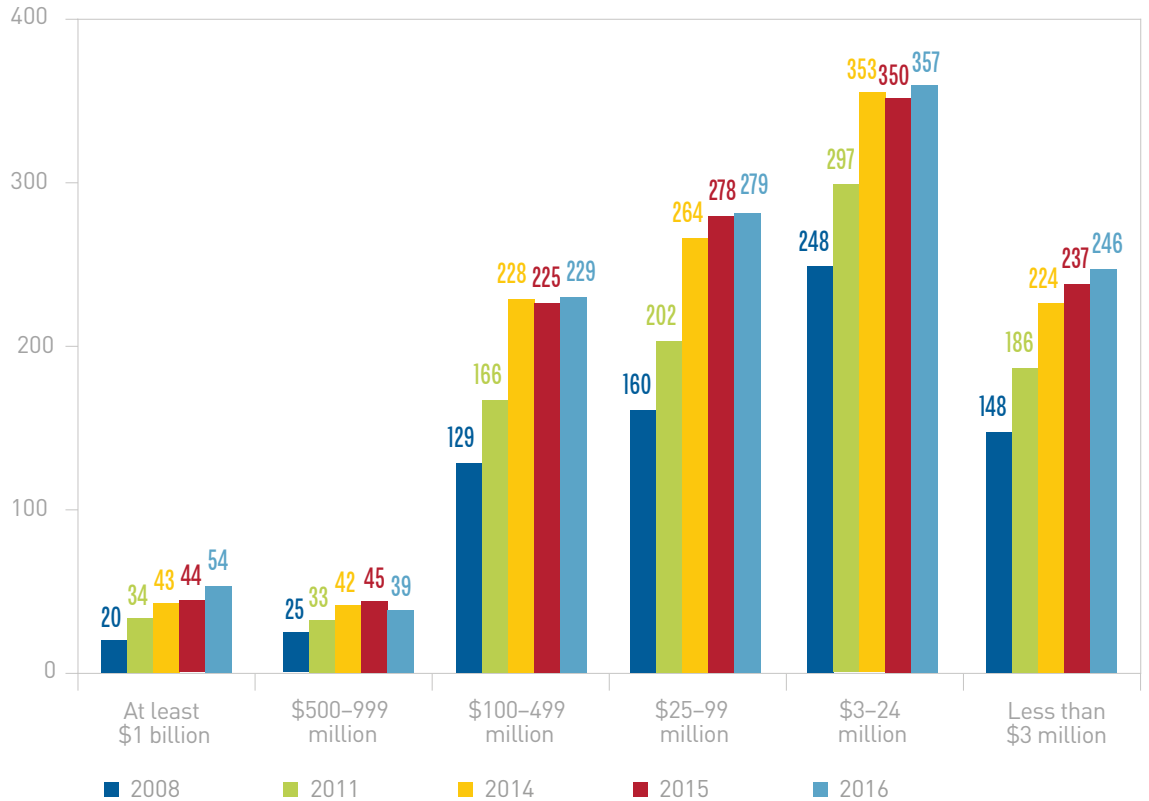
1.2. Main Parameters of Investment Projects in the DIM-Eurasia Database

The DIM-Eurasia Database is dominated by projects with investment values below \$100 million. The number of such projects increased from 556 at the end of 2008 to 882 at the end of 2016, while the number of all projects with non-zero FDI stock increased from 730 to 1,204. This has been accompanied, over the last eight years, by accelerated growth of the number of megaprojects (valued at \$1 billion or more), from 20 to 54 (see Figure 2).

The increase of the number of major deals registered in the DIM-Eurasia Database in 2016 was largely attributable to the growth of FDI stock in projects launched in the previous years. Examples include expansion by the Russian VimpelCom of its presence in Italy reflected in \$4 billion in FDI growth, as well as additional capital investments in a number of oil and gas projects, and investment of more than \$1.5 billion in construction of the Trans-Anatolian Pipeline (TANAP) by the Azerbaijani SOCAR. Several new deals also emerged last year. For example, a group of Indian investors acquired a 38.8% stake in Vankorneft (Krasnoyarsk Province, Russia) for \$3.3 billion; the Chinese Silk Road Fund became the owner of a 10% stake in the Russian petrochemical company Sibur for \$1.4 billion; and the Chinese Beijing Gas Group paid \$1.1 billion for a 20% stake in Verkhnechonskneftegaz PJSC. The largest new 2016 project with the participation of CIS investors was the acquisition by Rosneft of a stake in the Egyptian Zohr gas field (Shorouk concession) for more than \$1.1 billion.

We also undertook an FDI revaluation exercise to incorporate new data. For example, at the end of 2016, Chelsea F.C., owned by Russian businessman R. Abramovich since 2003, moved up to the 11th position, with \$3.8 billion. The list of the largest deals is undisputedly dominated by oil and gas projects. In the Top Ten, there are only two projects that represent other sectors—one from Communication and IT, and one from Chemicals (or, to be more precise, the petrochemical industry) (see Table 2).

Figure 2.
Distribution
of DIM-Eurasia
Database Projects
by FDI Stock Value



The sectoral structure of FDI registered in the DIM-Eurasia Database is much more varied. Even though Oil and Gas (including trunk pipelines) accounted for 49% of 2016 year-end FDI stock, capital investments in Communication and IT, Finance, Chemicals, Construction, and Mechanical Engineering also played an important role (see Figure 3).

Over the eight-year observation period, the share of Oil and Gas has increased by 9.2 p.p. (in absolute terms, FDI stock went up from \$39.9 billion at the end of 2008 to \$118.8 billion at the end of 2016). There was a notable increase in the significance of Communication and IT (share up by 2.4 p.p., FDI stock value up from \$6.2 billion to \$20.7 billion) and Chemicals (share up by 2.7 p.p., FDI stock value up from \$3.3 billion to \$14.3 billion). Conversely, relatively slow growth of capital investments resulted in a considerable reduction of the shares of Agriculture and Food Products and Finance (by 1.5 p.p. and 3.6 p.p. over eight years, respectively, with FDI stock value in both sectors increasing in absolute terms by 67%).

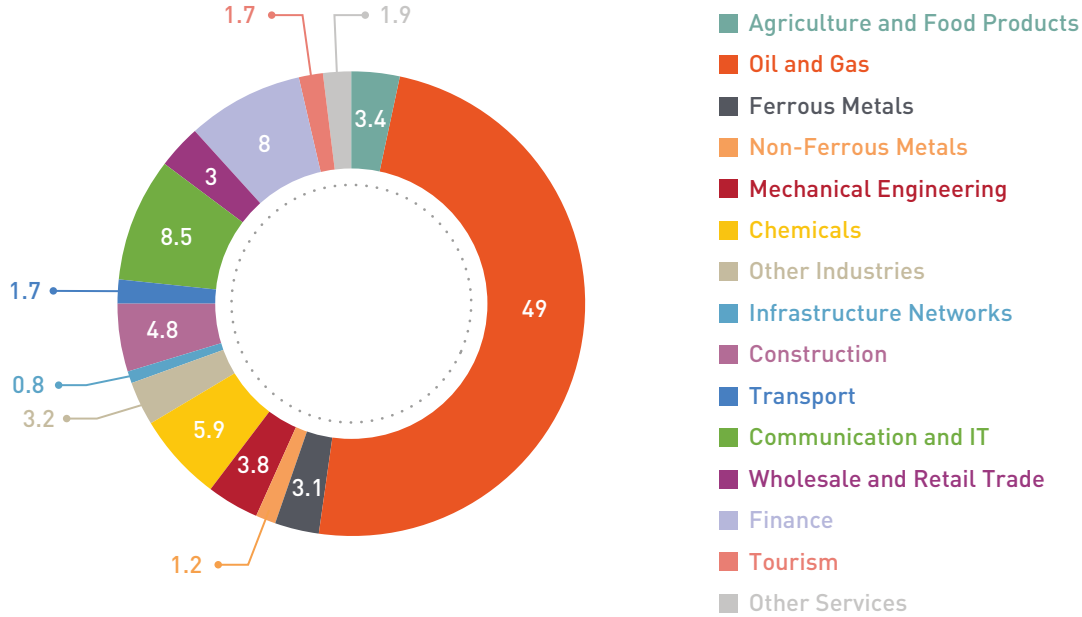
The most dramatic developments occurred in Ferrous Metals, where FDI stock plummeted from \$12.9 billion at the end of 2008 (and \$12.1 billion at the end of 2013) to \$7.5 billion at the end of 2016. As a result, the share of Ferrous Metals dropped from 12.8% (second position after Oil and Gas) to 3.1% (ninth position among the 15 sectors). This change was brought about primarily by massive impairment of Ukrainian assets, and sell-off of European steel assets by a number of Russian TNCs.

1. DESCRIPTION OF THE DIM-EURASIA DATABASE

Investor country	Recipient sector	Recipient industry	Investor company	FDI recipient country	Investment target	Project start year	2015 year-end FDI, \$ billion
Russia	Communication and IT	Telecommunications (Telephone Communication and Internet)	VimpelCom	Italy	Wind Telecomunicazioni	2011	11.5
Netherlands	Oil and Gas	Production of Crude Oil and Natural Gas	Royal Dutch Shell	Kazakhstan	18.5% in a North Caspian project	1997	10.0
China	Oil and Gas	Production of Crude Oil and Natural Gas	CNPC	Kazakhstan	Aktobe-MunaiGaz	1997	7.7
Netherlands	Oil and Gas	Production of Crude Oil and Natural Gas	Royal Dutch Shell	Kazakhstan	29.2% stake in Karachaganak	2015	6.6
Netherlands	Oil and Gas	Production of Crude Oil and Natural Gas	Royal Dutch Shell	Russia	27.5% stake in Sakhalin-2	1996	6.1
Japan	Oil and Gas	Production of Crude Oil and Natural Gas	SODECO Consortium	Russia	30% stake in Sakhalin-1	1996	5.1
Japan	Oil and Gas	Production of Crude Oil and Natural Gas	Mitsui, Mitsubishi	Russia	22.5% stake in Sakhalin-2	1996	5.0
Azerbaijan	Chemicals	Petroleum and Basic Organic Synthesis Chemistry	SOCAR	Turkey	Petkim, Izmir	2008	4.9
China	Transport	Trunk Pipelines	Trans-Asia Gas Pipeline Company	Kazakhstan	Kazakhstan-China Gas Pipeline	2008	4.8
Russia	Oil and Gas	Production of Crude Oil and Natural Gas	LUKOIL	Iraq	West Kurna-2	2010	4.0

Table 2.
Ten Largest Transactions in the DIM-Eurasia Database (End of 2016)

Figure 3.
Sectoral Structure of
FDI Registered in the
DIM-Eurasia
Database
(End of 2016), %



A detailed review of FDI structure makes the most sense when undertaken at the level of individual countries and groups of neighbouring countries (see following sections).

2. Direct Investments by CIS Countries in the Eurasian Continent

In the post-Soviet area, there have emerged several dozen large companies whose massive capital exports have elevated them to full-fledged TNC status. In the process of their foreign expansion, many investors have gone beyond the boundaries of the CIS—even if originally their FDI was confined to the familiar and relatively more comfortable former Soviet republics. This, however, does not mean that most Russian and other post-Soviet TNCs have become truly global. Many investors still use the Eurasian continent as the target destination of choice for their FDI.

2.1. Distinguishing Features of Russian FDI in Eurasian Countries

Russia boasts the largest value of outward direct investments among all post-Soviet countries. Oil and Gas accounts for more than 34% of Russian outward FDI stock, Communication and IT for almost 20%, and Finance for slightly less than 13%; in other words, the aggregate share of these three leading sectors exceeds two-thirds of the total (see Figure 4). Individual values may fluctuate; for example, over the eight-year observation period, the share of Oil and Gas has been seesawing between approximately 25–28% (at the end of 2008 and in 2011–2014) and more than 33%, while the share of Communication and IT has varied within a range from approximately 12% in 2008–2010 to almost 23% at the end of 2011. The most noticeable share decline over eight years has been posted by Ferrous Metals (the indicator has been relentlessly declining from 12% in the middle of 2008 to 2.4% at the end of 2016). Over the same eight-year period, the shares of Non-Ferrous Metals, Transport, Wholesale and Retail Trade, and Tourism in total Russian FDI have also taken a significant drop, while the shares of Chemicals, Construction, and Agriculture and Food Products have increased.

The leading recipients of Russian FDI at the end of 2016 were Italy (\$16.1 billion, or 18.9% of total Russian outward FDI stock in Eurasian countries outside the post-Soviet area), Germany (\$11.7 billion, or 13.6%), and United Kingdom (\$7.9 billion, or 9.2%). The overall share of Top Ten Russian FDI recipients (which, according to the DIM-Eurasia Database, also include Turkey, Switzerland, Iraq, Bulgaria, Egypt, Serbia, and France) has amounted to 74.5%. On the whole, the 28 EU member states have taken in 63.8% of total Russian outward FDI stock in Eurasia outside the post-Soviet area (see Figure 5). The share of the EU-28 (including Croatia following its accession in 2013) has gone down from 72.7% at the end of 2008 to 62.7% at the end of 2013, to start gradually increasing in the following years. Over the eight-year observation period, Middle Eastern countries (including Turkey and Egypt) have become more important as Russian investment capital recipients, with their aggregate share increasing from less than 10% at the end of 2010 to more than 17% at the end of 2014. Conversely, the significance of South and Pacific Asia has been declining, especially in the last two years.

Figure 4.
Sectoral Structure of Russian FDI Registered in the DIM-Eurasia Database (End of 2016), %

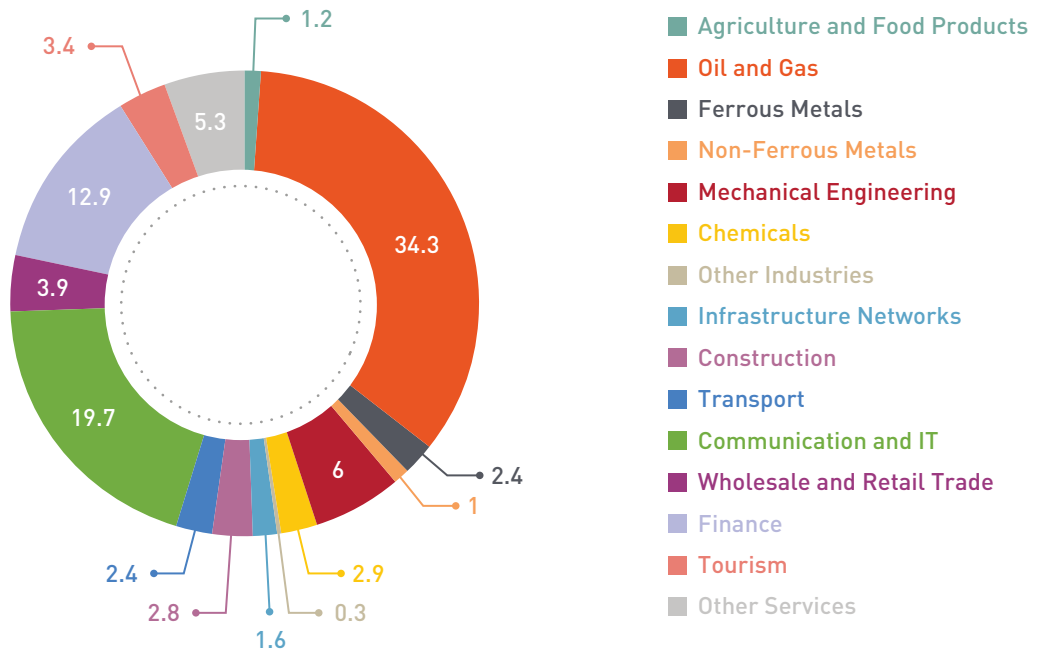
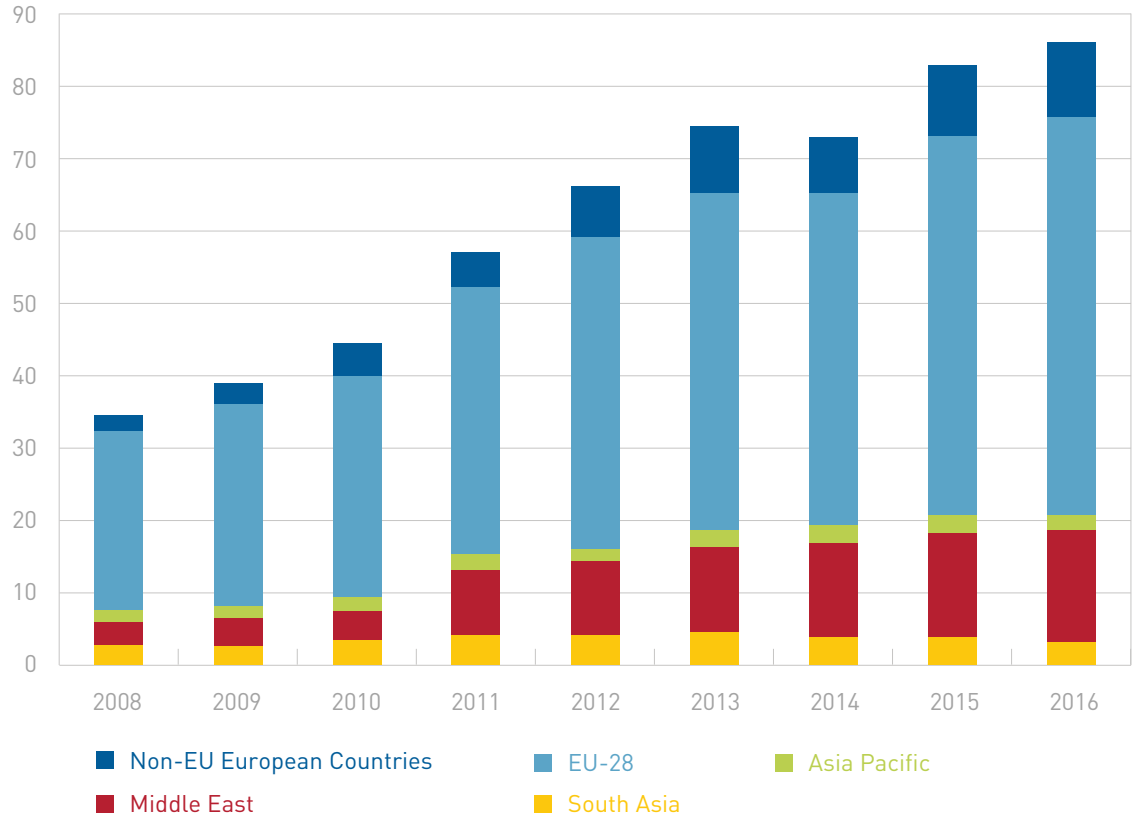


Figure 5.
Changes in Russian Outward FDI in the Regions of Eurasia in 2008–2016 (DIM-Eurasia Data), \$ billion



Inasmuch as in CBR statistics FDI is recorded by the first recipient country (which inflates the share of offshore areas and other “trans-shipping destinations”), the DIM-Eurasia data are very different from official data. According to the DIM-Eurasia Database, there were 20 countries that had received more than \$1 billion of Russian FDI each by the end of 2016. The CBR maintains that there are 21 such countries, but ten of them (Cyprus, Luxembourg, Spain, Ireland, Latvia, the Czech Republic, Denmark, Hong Kong, Monaco, and Montenegro) are not among the 20 leading Russian FDI recipients as per the DIM-Eurasia Database (see Table 3). In a number of cases, this can be explained by the fact that those states are used as “trans-shipping destinations” (this is true even for Switzerland, Austria, and the Netherlands, where at least some of the Russian FDI goes directly into the national economy), or have numerous real properties purchased by Russians (Seytkaliev, 2015). Certain countries, such as Iraq, Egypt, and Norway, fail to be recognised as leading FDI recipients because of the use, by Russian oil and gas investors, of holdings registered in third countries (the very same “trans-shipping destinations”). These trends are also typical for other industries, as evidenced by the examples of Italy, Pakistan, and Bangladesh, where the bulk of FDI in Communication and IT arrives via third countries (notably, VimpelCom has, for some years, been positioning itself as a Dutch TNC).

While, according to the DIM-Eurasia Database, total Russian outward FDI stock in Eurasian countries over the last eight years has increased by a factor of 2.5, FDI stock in the Middle East has increased by a factor of 4.7 (and by 9.2% in 2016). Over the same eight-year period, FDI stock in South Asia has increased merely by 16%, and in East and Southeast Asia by 46%, while in 2016 it went down in both regions. In comparison, in Europe outside the CIS, the eight-year increase in Russian outward FDI stock has been by a factor of 2.4, including an increase by 5.4% in 2016. Last year’s most notable events include the sharp decline of Russian FDI in Lithuania, Mongolia, and India, against the background of a significant growth of Russian investment presence in Egypt.

Despite the important role of European recipients of Russian FDI, the share of Russian capital investments in total FDI stock is higher in a number of Asian countries (calculations performed on the basis of a comparison of DIM-Eurasia, MIM CIS, and UNCTAD data—see Figure 6). However, while in the post-Soviet area and the Balkans the key factors are the “neighbourhood effect” and the absence of linguistic, cultural or informational barriers, in Asia the critical factor is political. Thus, outside the CIS, the share of Russian FDI in excess of 30% was registered only in North Korea and Iraq (while there are four such countries in the CIS—Tajikistan, Belarus, Uzbekistan, and Armenia). Outside the post-Soviet area the share of Russian FDI in total inward FDI stock exceeded in Bangladesh, Bulgaria, Bosnia and Herzegovina, Latvia, Serbia, and Turkey.

Anyone who undertakes an assessment of the prospects of Russian FDI growth in Asia, especially in Arab countries, should keep in mind that many high-profile projects ultimately fail to be implemented, or the actual capital outlay proves to be

Table 3.
Comparison of
DIM-Eurasia and
CBR Data on
Russian Outward
FDI Stock in Key
Recipient Countries

FDI recipient country	FDI stock at the end of 2009, \$ billion		FDI stock at the end of 2012, \$ billion		FDI stock at the end of 2015, \$ billion		FDI stock at the end of 2016, \$ billion	
	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR
Italy	4.25	1.91	12.05	1.70	12.34	2.35	16.16	2.48
Germany	4.64	7.44	6.07	9.11	10.82	9.43	11.69	8.14
United Kingdom	4.68	10.34	6.37	10.05	8.34	8.31	7.90	9.55
Turkey	3.08	2.64	7.20	5.66	7.03	7.14	7.28	8.90
Switzerland	1.40	7.70	3.86	12.42	4.09	17.59	4.86	19.60
Iraq	0.00	0.00	2.18	0.11	4.31	0.11	4.34	0.11
Bulgaria	1.56	1.59	2.88	2.85	3.99	3.25	4.02	3.26
Egypt	0.10	0.03	0.12	0.06	2.30	0.06	3.34	0.06
Serbia	0.96	0.39	1.79	1.78	2.67	1.20	2.55	1.37
France	0.51	1.34	1.76	3.29	1.73	2.89	1.68	2.88
Norway	0.00	0.11	0.00	0.18	1.61	0.47	1.61	0.53
Austria	1.32	6.05	1.75	7.46	2.18	22.56	1.59	22.13
Finland	0.46	0.97	0.60	1.31	1.59	2.48	1.58	2.93
Romania	1.51	0.06	1.59	0.14	1.39	0.03	1.57	0.03
Belgium	0.84	0.02	2.08	0.73	1.71	0.49	1.47	0.45
Pakistan	0.00	0.00	1.26	0.00	0.91	0.00	1.22	0.00
Poland	0.82	0.60	0.92	0.59	1.34	0.56	1.14	0.58
Bangladesh	0.00	0.00	0.75	0.00	1.15	0.00	1.13	0.00
Vietnam	0.33	...	0.47	...	1.12	...	1.11	...
Netherlands	1.06	24.57	1.24	65.62	0.98	61.89	1.06	60.25
Countries with record-high FDI according to the CBR								
Cyprus	0.11	115.90	0.11	151.32	0.11	112.37	0.05	150.29
Luxembourg	0.00	14.80	0.01	9.13	0.01	14.67	0.01	12.74
Spain	0.15	3.06	0.28	3.72	0.23	6.29	0.22	6.33
Ireland	0.44	0.67	0.52	2.54	0.56	3.32	0.56	5.47
Latvia	0.63	0.54	0.82	0.94	0.98	1.93	0.88	2.01

Sources: DIM-Eurasia Database and CBR (2017a).

2. DIRECT INVESTMENTS BY CIS COUNTRIES IN THE EURASIAN CONTINENT

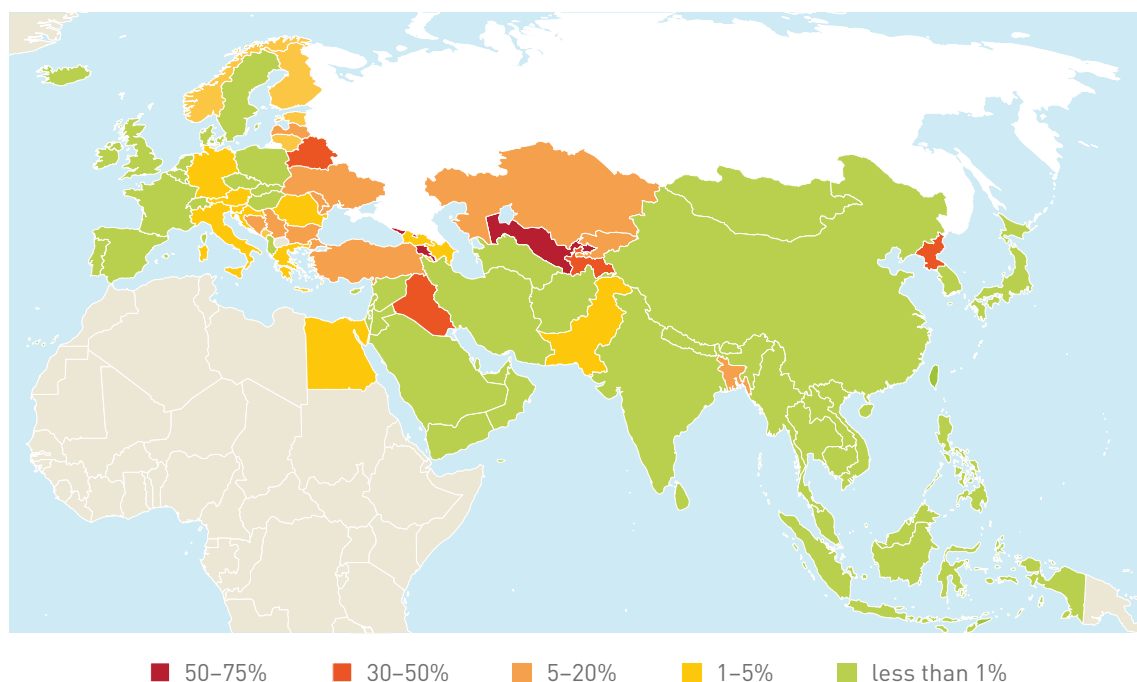


Figure 6. Share of Russian Capital Investments in Total FDI Stock in Eurasian Countries at the End of 2016, %

Source: in-house calculations based on DIM-Eurasia and MIM CIS Databases; UNCTAD.

by an order of magnitude less than originally announced. For example, until recently, exploration and development of Block A gas fields in the Rub' al Khali desert was considered the key Russian project in Saudi Arabia. A joint venture—LUKSAR, or LUKOIL Saudi Arabia Energy Ltd.—was created in 2004 by LUKOIL (80%) and ARAMCO (20%) to secure implementation of that project. However, in the end the project was closed down. Many investments are associated with turnkey construction projects, where post-completion FDI stock is equal to zero. For example, in 2007–2009, the Russian company Stroytransgaz successfully built an oil pipeline in Saudi Arabia, and in 2008 the Russian party completed construction of a water-supply (desalination) system in Shukeik. Solar energy (photovoltaics, or PV) is another area of mutual interest in relations between Russia and Saudi Arabia. The Russian integrated company Hevel (the country's largest solar energy company, which specialises in creation of solar modules, design of PV power plants, and development of new renewable energy technologies) will reportedly take part in a tender for the construction of a PV power station in Saudi Arabia, but neither the details nor the time frame for the tender have been disclosed so far (Rambler, 2017). Ultimately, it would be fair to say that at this point all Russian projects in Saudi Arabia are sporadic and specialised.

At the same time, agreements on all scheduled projects were signed during the historic visit of the King of Saudi Arabia to Russia in October 2017. On the eve of the visit,

Russia and Saudi Arabia executed a preliminary \$3.5 billion contract for the supply of weapons to the largest state of the Arabian Peninsula. It is anticipated that the contract will come into force when Russia has built production facilities and commenced manufacturing of weapons in the territory of the Kingdom, with the relevant technologies being subsequently handed over to the Saudis. According to Sergey Chemezov, Rostech CEO, construction of a plant to manufacture Kalashnikov assault rifles will be the simplest way to kick-start such cooperation (Nimyaev, 2017).

Currently the most promising and far-reaching project is the megaproject envisaging creation of a special Russian Industrial Zone in Egypt. Project-related investments are estimated at approximately \$7 billion. The Russian Industrial Zone—an area with a special taxation regime for Russian companies and their partners—will be situated within the Suez Canal Special Economic Zone. The Russian party intends to use a 525-hectare plot in East Port Said, near the point of entry into Suez Canal from the Mediterranean Sea. Thus the plan is to implement a major geostrategic project with massive geo-economic and political potential. It is expected that about 60 Russian companies will invest in the Russian Industrial Zone in Egypt. Major Russian corporate interest areas may include machines and components, power engineering, other equipment, construction materials, instrumentation, wood processing, and pharmaceuticals. If such a large project is to be implemented, Russia's leading companies will definitely be involved. The only recommendation for the Russian party is to find an optimal way to assure system safety at these large industrial facilities.

A good chance exists that Russian businesses will energise their cooperation with Iran, with possible investment targets including military and technical cooperation, oil and gas projects, transport engineering, and port infrastructure facilities (if a North-South international transport corridor is created). New projects may be launched in the nuclear power industry. To date, most investments have been made by state-owned corporations or state-affiliated companies. The private corporate sector (represented by V. Potanin's group of companies) is still sizing up Iran's investment market, as the country only recently began to actively encourage foreign investment after sanctions were lifted. The low investment activity in Iran is attributable to underdevelopment of its private corporate sector (due to historic inertia dating back to the period of the Shah), implying the need to aggressively promote further growth and expansion of the national economy. The most significant Russia-Iran deal to date is the contract (signed in August 2017) for joint drilling of oil wells in the Darkhovin (Darquin), Sepehr, Jufair, and Kish gas fields. The key project participants are Zarubezhneft (Russia), Unit International (Turkey), and Ghadir Investment Holding (Iran). Total investments to be made over several next years are estimated at \$7 billion (Kozlov, 2017). The tripartite agreement will contribute to the strengthening of foreign economic and political ties among the three countries, and encourage exchange of experience and possible further diversification of tripartite projects. The Iranian party is offering tax exemptions to attract foreign investment. The corporate profit tax rate in Iran is 25%, but new businesses are fully or partially exempted from it for a certain period. For example, industrial and mining companies get an 80% exemption for four years, while agricultural companies are fully exempted for 20 years. Iran is a long-standing and faithful political, military,

and economic partner of Russia, and investment cooperation between the two countries will probably be expanding.

India provides a good example of how Russian businessmen are increasingly interested in the services sector as an investment target. Unlike large-scale investments in oil and gas or the nuclear power industry, the services sector engages the population at large, with relevant projects getting high recognition and helping to convert Russian involvement into a highly successful image-making move—on the one hand, it may open the door to the regional markets in neighbouring countries; on the other, the possibility emerges to improve the end product, diversify supply, and flexibly attune to Indian realities.

Another target region—which appears to be somewhat ambiguous with respect to Russian FDI prospects—is the post-socialist countries of Europe. The problems, both economic and political, encountered by Russian investors continue to dampen their corporate activity in Eastern Europe: in 2016, Russian FDI in the seven Baltic and Visegrád Group countries dropped by more than 17%, all but reaching the lows posted ten years before. The decrease of Russian outward FDI stock, which started in 2014, has only intensified: companies are either not investing in existing projects or are getting rid of the relevant assets. In 2016 only 15% of all projects received fresh capital infusions. However, the factor that had the most impact on the situation in the region in 2016 was the withdrawal of certain large investors (in some cases, for political reasons). Examples include the sale by LUKOIL of its retail units in Latvia, Lithuania, and Poland, and the sale by Sberbank of its Slovakian business. In absolute terms, total “losses” resulting from the sell-off of Russian assets have exceeded \$0.8 billion, and the chances that they will be recovered in the immediate future are rather remote. A number of Russian companies did start new projects even in 2016, but they were few and far between, and the capital invested seldom went above the \$20 million mark.

The relatively more rapid decline of Russian corporate investment activity in the Baltic countries vs. Visegrád Group countries led to the four countries comprising the latter emerging as the new centres of gravitation for Russian outward FDI. Even though the three Baltic countries account for most Russian projects in these seven countries, those projects are considerably smaller, both collectively and individually. Conversely, Poland and the Czech Republic have projects with investments measured in hundreds of millions of dollars.

Another trend in 2016 is related to changes in sectoral preferences of Russian corporate investors. Following the withdrawal of major Russian investors from the Baltic and Visegrád Group countries, the share of Wholesale and Retail Trade in total Russian outward FDI dropped fivefold, and the sector yielded its leading position to Oil and Gas. Still, the region retains its appeal for Russian FDI, with Finance and Transport remaining the key target sectors.

2.2. FDI in Eurasia Originating from Other EAEU Countries

In the EAEU, only Kazakhstan apart from Russia demonstrates notable FDI stock in Eurasian countries. Significant projects with the participation of capital from Kazakhstan are under way in more than ten countries, mostly in Europe. Romania is Kazakhstan's largest partner in terms of FDI stock. Kazakh investors in Romania focus mostly on Oil and Gas, Wholesale and Retail Trade, and Transport. The largest investment (not just in Oil and Gas, but in the entire Romanian economy) is the acquisition and expansion of The Rompetrol Group N.V., which comprises two oil refineries and 630 petrol stations in Europe and the CIS. The total amount invested in that company is estimated at \$3.3 billion. FDI stock in Wholesale and Retail Trade (acquisition and expansion of the petrol station network operating in Romania under the Rompetrol brand) is estimated at \$1.5 billion. Transport is represented by two facilities assigned to Port Facilities and Marine Transport (with aggregate investment estimated at \$110 million). In all these cases, the investor is KazMunaiGaz, the largest Kazakhstan national oil company. In our opinion, its interest in the region can be explained by the presence of a proprietary high-tech EU-focused oil-refining cluster which is well aligned with, and complements, the international specialisation of Kazakhstan, and where Kazakhstan companies have achieved high competency.

Turkey has the second-largest Kazakhstan's outward FDI stock (after Romania). Most of it is represented by the project envisaging construction of Europe's largest spa/wellness resort on the Aegean coast. The investor company is Capital Partners. Approximately \$47 million has been invested in Telecommunications (acquisition of a 32% stake in Alfa Telecom Turkey Limited in 2007). It should be noted that some transactions with the participation of Kazakhstan's capital, in particular the acquisition of real properties in Turkey and purchase of small and medium-sized Turkish companies, cannot be tracked by this research project due to their relatively insignificant amounts. Romania and Turkey together account for more than 83% of total Kazakhstan's outward FDI stock in Eurasian countries outside the CIS.

At the end of 2016, Kazakhstan's outward FDI stock in Israel amounted to more than \$200 million, and consisted of investments in Chemicals, Communication and IT, and Finance. The largest deal was registered in Chemicals: acquisition of Tambour (a rather large company by Israeli standards) for \$114 million. Kazakhstan's outward FDI stock in France, Bulgaria, and Spain was concentrated primarily in Wholesale and Retail Trade, specifically, a petrol station network. The investor is KazMunaiGaz; in France and Spain, the network operates under the trade name Dyneff; in Bulgaria (and Moldova) under the trade name Rompetrol. In France, investments in petrol stations are complemented by a \$19 million investment in a Transport facility owned by KazMunaiGaz through its overseas subsidiary KMG International N.V.

Kazakhstan's outward FDI stock in United Kingdom and Switzerland is concentrated in Finance. Considerable sums have been invested by private individuals in elite real properties. The value of residential real properties owned by such individuals in those countries is estimated at \$196 million (United Kingdom \$114 million; Switzerland \$82 million). In Austria, a Kazakh businessman, operating through Verny

Capital, owns the Ritz-Carlton Hotel, valued at \$200 million. Capital investments in these countries are driven by the latest trend whereby it is perceived as fashionable and prestigious for oligarchs to own real estate in foreign countries, particularly in the EU.

Kazakhstan's investments in China are not as numerous or impressive at merely \$76 million, but they are more diversified. Kazakh investors have established a presence in Ferrous Metals, Wholesale and Retail Trade, Oil and Gas, Transport, Infrastructure Networks, and Non-Ferrous Metals. Transport boasts the largest number of recipient facilities and the highest amount of investments (\$34 million). In the UAE, the bulk of FDI stock (\$100 million) is represented by Wholesale and Retail Trade (Comit Resources FZE, a copper and cobalt trader), followed by Construction with approximately \$20 million. In Iran, the main investment target is Transport, while in India most capital has gone into Construction.

The general nature and specific features of investment flows originating from Kazakhstan are largely attributable to the country's international specialisation, its relatively weak economic and, particularly, technological development, and the fact that most economic agents (with the exception of several large companies) have no surplus capital. Most Kazakhstan's outward FDI in Europe and Asia goes into Oil and Gas. At the end of 2016, the share of that sector in total Kazakhstani outward FDI stock in European and Asian countries exceeded 50%. The second position was held by Wholesale and Retail Trade (more than 28% of total outward FDI). It should be noted that due the country's sectoral specialisation, five out of seven recipient companies are petrol station networks operating in various countries, and the largest investment in the sector was made in a copper and cobalt trader. The third position is held by Tourism, with more than 9% of total outward FDI. However, the overwhelming majority of capital invested in that sector has gone into a single large project, the aforementioned spa/wellness resort.

Finance is the fourth-largest recipient of Kazakhstani outward FDI stock, even though its share in total FDI stock (about 3%) is much lower than those of the first three sectors. These investments are almost evenly distributed between acquisition of elite real properties and creation or acquisition of venture funds. Finally, Transport is in the fifth position, with 2.5% of total Kazakhstani outward FDI stock in the countries under review. The Chemical sector (1.8%) is another sector with a share in total FDI stock above 1%.

By the end of 2016, Belarusian outward FDI stock in Eurasian countries outside the post-Soviet area reached \$582 million, having increased by a factor of 3.9 over the last eight years. Belarus is gradually beginning to diversify its FDI geography. The largest recipient countries are Cyprus, the Baltic countries, and other EU member states, but Belarusian investors are also gradually turning towards Asia. Even though FDI in Asian countries focuses primarily on Communication and IT, Belarus seeks to expand cooperation in sectors where it traditionally holds the strongest positions, namely, agricultural production and manufacturing of heavy lorries. India (where Belarusian FDI is still rather unimpressive) provides a good example to illustrate the point.

A service and maintenance centre for BelAZ dump trucks was opened in Nagpur (Maharashtra) in May 2016. Negotiations are now under way to build an assembly plant for Belarusian quarry equipment. In June 2017, Gomselmash and DVR Infratech created a joint venture (Gomselmash-India). The Belarusian party expects the JV to promote Belarusian grain and forage harvesters in the Indian market, and subsequently arrange for their manufacture and localisation in India. Belarus also hopes to build assembly plants to manufacture Minsk Tractor Plant (MTZ) tractors and Minsk Automobile Plant (MAZ) lorries.

Investments originating from Armenia and Kyrgyzstan are still quite insignificant. The DIM-Eurasia Database contains records of four projects with total Armenian FDI of \$174 million (with no new projects started after 2013), and two projects with total Kyrgyz FDI of \$62 million (both in Finance, including acquisition of a penthouse in London in 2016).

2.3. Azerbaijani Investments: Domination of Companies with State Equity Participation

Azerbaijani outward FDI in Eurasian countries outside the CIS is predominantly the work of a limited number of legal entities and individuals with a narrow investment strategy. The State Oil Company of the Azerbaijan Republic (SOCAR) invests in industrial facilities and infrastructure; the State Oil Fund of the Republic of Azerbaijan (SOFAZ) invests in interest-bearing assets; and Azerbaijani economic and political elites export capital to purchase luxury real properties. By the end of 2016, total Azerbaijani outward FDI stock in the region exceeded \$10 billion, with Oil and Gas and related projects accounting for 82%, and real estate transactions for 15% of that amount. Despite the steps taken to develop the country's oil and gas sector, almost no investments in production projects abroad are unrelated to Oil and Gas.

Over the last five years, the average annual increase of Azerbaijani outward FDI in Eurasian countries outside the post-Soviet area amounted to 41%. A review of the geographic distribution of Azerbaijani outward FDI stock shows that Turkey has retained its leadership: it currently accounts for more than 73% of total investments. Of all the post-Soviet countries investing in Turkey, Azerbaijan is second only to Russia. Total Azerbaijani investments are estimated at \$7.7 billion, with Chemicals and Oil and Gas being the key recipient sectors. The number of facilities with Azerbaijani equity participation in Turkey is relatively small, but the related FDI stock is quite impressive, and continues to increase from year to year. Because of Turkey and the UAE, Azerbaijani outward FDI in the Middle East is rapidly growing in value terms, but that region's share is shrinking due to geographical diversification (see Figure 7). European recipients of Azerbaijani FDI include Switzerland, Montenegro, United Kingdom, France, and Greece, while Japan and South Korea are the leading recipient countries in Pacific Asia.

SOCAR is the key Azerbaijani investor in Eurasian countries. At the end of 2016, its direct investments reached 71% of total FDI stock in the region. SOCAR's foreign

2. DIRECT INVESTMENTS BY CIS COUNTRIES IN THE EURASIAN CONTINENT

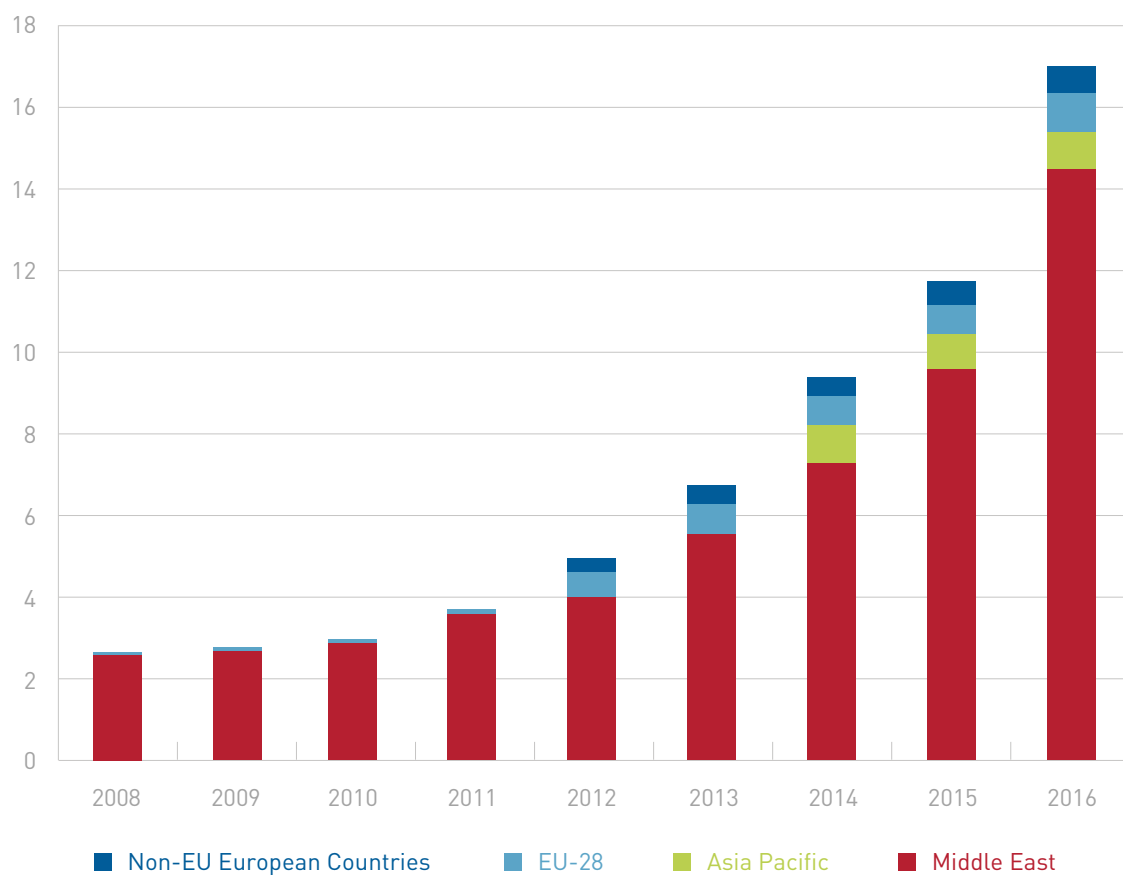


Figure 7. Changes in Value and Geography of Azerbaijani FDI Stock (2008–2016), \$ billion

assets include petrol station networks in Switzerland and Romania, an oil terminal in the UAE jointly owned with Aurora Progress, and Pektim Petrochemical Complex in Turkey, the largest project currently under way (through Pektim, Azerbaijan owns a 60% stake in STAR Oil Refinery and a 70% stake in Petlim Container Port). Despite the sale of 8.7% of shares in 2015–2016, the value of Azerbaijani assets keeps steadily growing. By July 2017, total investments in STAR Oil Refinery reached \$6 billion (with \$960 million provided by SOFAZ), and construction was 90% complete. There is a plan to implement, in the next several years, a second petrochemical project valued at about \$3 billion.

SOCAR is implementing two major infrastructural projects: the Trans-Adriatic Pipeline (TAP) and the Trans-Anatolian Pipeline (TANAP), where Azerbaijan, acting through the Southern Gas Corridor company, owns 20% and 58%, respectively. Construction of the TANAP gas pipeline commenced in 2015, and total investments are estimated at \$8.5 billion. More than 80% of work was completed by September 2017, and the first gas deliveries to Turkey from the Azerbaijani Shah Deniz field are expected by the summer of 2018. Construction of the TAP gas pipeline, going through Greece and Albania

and then on to Italy along the bottom of the Adriatic Sea, commenced in 2016, and more than 50% of the work has been completed. The pipeline's total value is estimated at €4.5 billion. It should be noted that the initial throughput capacity of the TANAP pipeline is limited to 16 billion m³ per year (about 6 billion m³ per year will be supplied to Turkey, and 10 billion m³ per year to Europe). For comparison, the aggregate throughput capacity of the two lines of Nordic Stream is 55 billion m³ per year.

For several years, SOCAR tried to negotiate the purchase of a stake in the operator of DESFA, the Greek gas transport system which owns, *inter alia*, the Revithoussa Regasification Terminal. The tender for the acquisition of 66% of DESFA shares for €400 million was won by the Azerbaijani company back in December 2013. However, at the end of 2014, the European Commission started an investigation to verify the deal's compliance with European antitrust laws, and upon completion of the investigation demanded that the stake owned by SOCAR be reduced to 49%. Later, in July 2016, Greece changed its gas tariff calculation rules, rendering the project commercially unfeasible for SOCAR if the original purchase price were to remain unchanged. The parties failed to come to an agreement, and in November 2016 the deal was finally terminated. SOCAR did not participate in the new tender announced in June 2017.

The other major investor is SOFAZ, with 2016 year-end investments accounting for 23% of total Azerbaijani outward FDI stock in the region. The new investment strategy, approved in 2011 and designed to, among other things, diversify sources of income in an unstable macroeconomic environment, permits the Fund to invest up to 5% of its total portfolio in real properties. SOFAZ focused on acquisition of commercial real estate in developed countries of Europe and Asia for subsequent lease. In the next three years, it purchased several office complexes in London, Paris, Seoul, and Tokyo. In 2016, that list was supplemented with the office properties Palazzo Turati in Milan and Junghof Plaza in Frankfurt. Such geographical diversification of assets mitigates exposure to financial and economic risks; that, along with steady profit flows from previous projects, prompted Fund managers to increase the ceiling for permitted real property investments to 10% in 2016 (the actual share of such investments at the end of the year stood at 4.4%). Accordingly, in the years to come the Fund is expected to expand its investments in such properties in the leading Eurasian countries.

It is common knowledge that the Azerbaijani political elites and their close associates have been buying foreign real properties. According to unofficial data, they own luxury properties in London, Dubai, Karlovy Vary, and Bucharest with a total value of more than \$150 million (Information Agency "Stringer", 2010; Fitzgibbon, Patrucic, García Rey, 2016).

A rare example of Azerbaijani investment in a project outside of its standard "investment triad" is the construction of the Portonovi tourist centre in Montenegro (including One&Only Hotel, a spa centre, villas, etc.). The investor is Azmont Investments, a subsidiary of Azerbaijan Global Investments, specializing in investment projects in non-resource sectors outside Azerbaijan. The total value of the project is estimated at €650 million, with €220 million already invested by August 2017. At the beginning of 2016, a bank with Azerbaijani equity participation (Azmont Banka, later renamed Nova Banka) was established to meet the project's funding needs.

2.4. Ukrainian FDI as a Reflection of the Situation in the Country

In 2016, the rate of decrease of Ukrainian investment presence in Eurasian countries decelerated. No radical change occurred in the country, either economically or institutionally, but the jettisoning of the weakest and least-promising foreign projects finally came to an end. Besides, bitter fighting for redistribution of oligarchic wealth within the country was replaced with a period of relative calm, and the new balance of power became more or less clear. All that prompted Ukrainian business to stop foreign asset sales, and proceed to configure its presence abroad in line with new priorities and orientations.

According to the DIM-Eurasia Database, in 2016 Ukrainian investments in Eurasian countries outside the CIS decreased by 10% year-on-year from \$3.8 billion to \$3.4 billion. The main factor contributing to the decrease of Ukrainian FDI was the winding up of Ruslan International, a joint venture with the participation of the Russian cargo company Volga-Dnepr and the Ukrainian State-Owned Company Antonov. The media has reported that Antonov will continue its operations in the United Kingdom under a new name, without its former Russian partner's involvement (Ekonomika, 2016).

Despite the relative stability of the amount of invested funds, the sectoral and geographic structure of Ukrainian investments has sustained major changes.

In 2016, new excursions by Ukrainian capital into foreign markets reflected its growing attraction to EU countries. Ukrainian capital expansion targeted mostly Visegrád Group countries and Slovenia. In sectoral terms, Ukrainian investors preferred sectors with minimal financial outlays and, consequently, minimal risk exposures, such as real property (acquisition of the Galeria Sandomierz Trade Centre in Poland and the Centro Ostrava Retail Park in the Czech Republic), commodity distribution networks (Ukrainian company Farmak acquired a Polish marketing and distribution company), and small production companies (acquisition of Marifarm, a Slovenian pharmaceutical company, by the Ukrainian Arterium). Acquisition by the Ukrainian agricultural producer Mironovskiy Khleboprodukt (Mironov Grain Products) of a poultry-processing factory in the Netherlands testifies to the intention of Ukrainian companies to penetrate relevant markets not only in Central and Eastern Europe, but also in Western Europe; however, such transactions are few and far between.

There is a group of transactions that stand out from the rest: acquisition of petrol station networks in Germany by the Ukrainian businessman S. Kurchenko and his affiliated entities. At the beginning of 2017, he purchased a network of 126 petrol stations through his business partner K. Pivovarov. This supplemented the 170 petrol station network in Thuringia that he had bought back in 2013. The lack of transparency of these deals and of the entities behind them prevents their classification as a new stage of Ukrainian capital expansion into the EU market; these investments look more like an attempt to legalise and preserve capital by entities hailing from Luhansk and Donetsk Regions (which are not, in fact, controlled by the Ukrainian authorities) and linked to representatives of Ukraine's former political elite. The same is apparently true for a series of acquisitions of real properties in Vienna and other European cities; those deals get no mass media coverage, and it is quite difficult to obtain reliable information about them or their participants.

Conversely, old enterprises from Eastern regions of Ukraine, currently not controlled by the Ukrainian authorities, find it hard to keep their foreign assets afloat. This relates, first and foremost, to the Industrial Union of Donbass, with assets impaired by the war in the Donbass, and which, acting under effective control of the Russian Vnesheconom-bank, has repeatedly announced that it wants to get rid of its Polish and Hungarian assets, and is looking for buyers.

Restructuring of property inside Ukraine necessarily affects assets abroad, as new owners come into their rights and start to dictate their will. A good example is Privat Bank, which was nationalised in 2016, and whose branches in Italy (and before that in Portugal) were liquidated. The Italian branch was accused of financial fraud and money laundering. Similar difficulties were encountered by other branches of the bank; for example, operations at the Cyprus branch were suspended because some of the instructions issued by the new owner were inconsistent with Cypriot laws. One of the conflicts, in particular, was related to the order to withdraw cash from customer accounts. Subsequently, the conflict was settled, and operations of the branch were resumed (Segodnya, 2016; Usenko, 2017).

Internal economic and political developments in Ukraine, institutional transformations, and revision of rights of ownership to major enterprises could not have failed to affect the configuration of the country's foreign assets. Some of the key trends—breakaway from Russian partners, integration with Central and Eastern European niche markets, liquidation of assets associated with weakened and embattled oligarchic entities—will probably persist for years to come. Notably, foreign investors (both from the EU and from other Eurasian countries) are being extremely cautious and generally reluctant to invest in the Ukrainian economy. This state of affairs is likely to continue until the current political cycle in Ukraine runs its course, and the country returns to a sustainable economic growth trajectory.

3. Direct Investments by Eurasian Countries in the Post-Soviet Area

More than 53% of all FDI recorded in the DIM-Eurasia Database relates to Eurasian FDI stock in the eight post-Soviet states under review. The Netherlands accounts for most FDI stock originating from Europe, and China accounts for most FDI stock originating from Asia. Other notable investor countries include Japan and India. At the same time, despite the numerous media reports about possible FDI from certain countries, especially Middle Eastern countries, no notable investments have been recorded that would originate, for example, from Saudi Arabia.

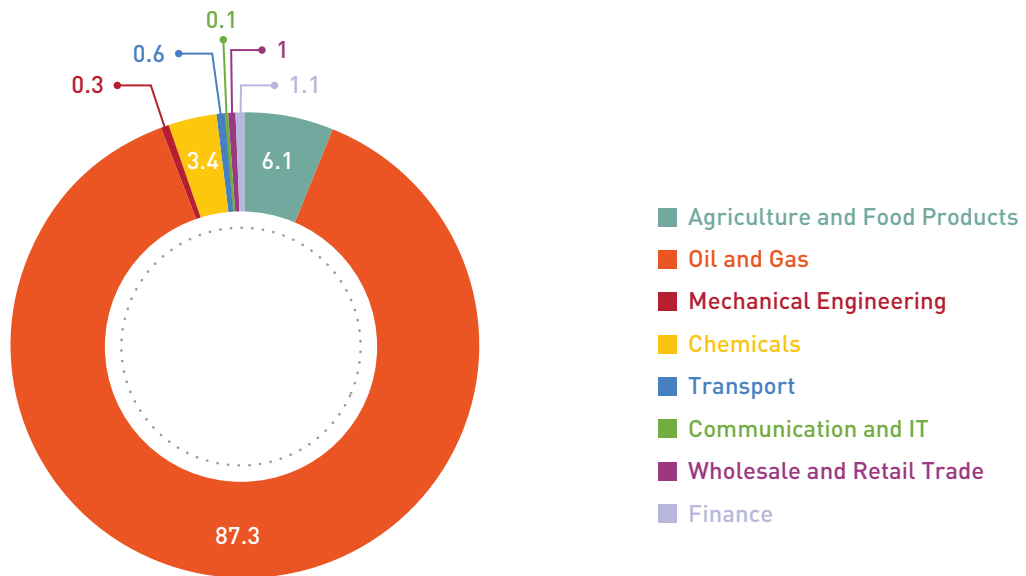
3.1. Dutch FDI: Local TNCs vs. Foreign Holdings

In 2016, Dutch companies' behaviour in CIS markets was quite discreet: they did not make any major acquisitions, nor did they sell off their existing assets.

According to our monitoring data, in 2016 investments by Dutch companies in the eight CIS countries under review increased by almost 15% year-on-year, or by almost \$4 billion. The increase was mostly attributable to revaluation of certain investments in large-scale oil and gas projects based on newly published data. In particular, this is true for the stake held by Royal Dutch Shell in the North Caspian Project in Kazakhstan, following publication of investment-related information in 2016. That particular project, together with several other oil and gas megaprojects with Dutch corporate participation (and this sector has drawn almost all the “real” Dutch FDI in the CIS—see Figure 8), has made Kazakhstan the largest recipient of Dutch investments among the eight countries under review.

However, Russia remains the undisputed leader in the number and variety of projects with the participation of Dutch investments, both real and those using that jurisdiction as a “trans-shipping destination”. According to our monitoring data, at the end of 2016, Dutch outward FDI stock in Russia amounted to \$11.3 billion, having increased year-on-year by merely 0.7%. At the same time, according to official statistics (De Nederlandsche Bank 2017), in 2016 direct Dutch investments in Russia continued to decline, decreasing by €4.4 billion (\$5.3 billion) (2015: decrease by €2.9 billion (\$3.5 billion)). Total FDI stock went down to \$58.3 billion (according to CBR data, at the end of 2016, Dutch FDI in Russia amounted to \$40.2 billion based on the directional principle, and \$46.6 billion based on the asset/liability principle (CBR, 2017b), which is the second-largest indicator after Cyprus). Apparently the dwindling of financial flows from the Netherlands caused by less active use of that jurisdiction as a “trans-shipping destination” has not yet finished. At the same time, the Netherlands remains one of the most important sources of “real” FDI in Russia, even though, compared to many other countries, especially Japan, India, China, and Turkey, the difference between DIM-Eurasia and CBR statistics on Dutch investments has a negative sign (see Table 4).

Figure 8.
Sectoral Structure
of “Real” Dutch FDI
Registered in the
DIM-Eurasia
Database
(End of 2016), %



According to preliminary estimates, the share of Russia in total Dutch outward FDI stock in all EAEU countries under review amounts to approximately 30%. The approximate nature of that estimate is attributable to the fact that both in our database and in official statistics there is virtually no information about Dutch investments in such countries as Armenia, Azerbaijan, Kyrgyzstan, or Tajikistan. Information about investments in Belarus, Kazakhstan, and Ukraine provided by official sources is only fragmentary (see De Nederlandsche Bank, 2017).

Deceleration of investments in the Russian economy was caused by exhaustion of the weak rouble effect, when investors sought the opportunity to make supernormal profits by exporting sharply devalued goods manufactured in Russia. The absence of major exchange rate fluctuations over the last year stopped that trend, giving reason to hope for the advent of new investors coming to the Russian market for the long haul.

In 2016, the numerous “real” Dutch projects previously launched in Russia experienced a lull. Some markets (for example, the beer market) were affected by the general slump resulting in asset impairments—and in some cases selloffs. In particular, the Kaliningrad-based Heineken brewery was put up for sale at the beginning of 2017.

New projects in 2016 did not advance beyond expression of intentions. For example, Windlife Energy B.V., a major wind-park operator, announced plans in 2016 to build a \$370+ million (RUB 22 billion) wind park in Murmansk Region, but failed to proceed to actual construction.

In Ukraine, Dutch companies were forced to make adjustments to keep up with the rapid transformation of the national market. The changes affected both “real” assets and investments that had been processed through the “trans-shipping destination” in the Netherlands.

3. DIRECT INVESTMENTS BY EURASIAN COUNTRIES IN THE POST-SOVIET AREA

FDI source country	FDI stock at the end of 2009, \$ billion		FDI stock at the end of 2012, \$ billion		FDI stock at the end of 2015, \$ billion		FDI stock at the end of 2016, \$ billion	
	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR	DIM-Eurasia	CBR
Japan	10.26	1.24	13.57	1.45	14.84	1.32	15.06	1.92
Netherlands	9.24	33.29	11.35	56.08	11.19	38.79	11.27	46.44
India	5.08	0.14	5.38	0.14	5.79	0.07	9.10	0.08
China	0.67	1.25	1.26	1.99	5.22	1.35	8.23	2.27
Austria	3.91	7.22	6.32	9.76	5.46	5.55	6.46	5.24
Turkey	2.64	0.60	4.98	0.56	5.04	0.76	5.15	0.91
South Korea	1.42	1.15	1.79	2.47	2.12	1.37	2.12	2.29
Israel	0.69	0.23	1.24	0.38	1.41	0.18	0.97	0.25
Singapore	0.28	0.12	0.57	0.68	0.69	0.53	0.79	14.70
Vietnam	0.18	0.24	0.93	0.70	0.54	...	0.67	...
UAE	0.00	0.07	0.00	0.14	0.00	0.21	0.56	0.23
Serbia	0.28	0.04	0.29	0.19	0.24	0.04	0.24	0.07
Iran	0.04	...	0.07	...	0.04	...	0.07	...
Egypt	0.00	0.04	0.00	0.01	0.00	0.01	0.00	0.01
Mongolia	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01
Saudi Arabia	0.00	...	0.00	...	0.00	0.00	0.00	0.00

Table 4. Comparison of DIM-Eurasia and CBR Data on FDI Stock in Russia

Sources: DIM-Eurasia Database and CBR (2017b).

A good example of a project that is styled as “Dutch” in the media, but is de facto owned by Ukrainians, is the acquisition by Kernel, acting through its subsidiary Jerste B.V., of stakes in ten Ukrainian agricultural companies. In reality, Kernel is owned by the Ukrainian businessman A. Verevsky, through holding companies in Cyprus and Luxembourg. Acquisition of a 25% stake in Neftegazodobycha by the Dutch Salazie B.V. probably belongs to the same group. The ultimate beneficiary of Salazie B.V. is not known, and the company is mentioned only in connection with that transaction.

Dutch companies planning new projects in Ukraine are not in a hurry to start their implementation. In the middle of 2016, CTP company announced plans to invest about €50 million (\$60 million) in construction of the CTPark industrial park in Lvov, but so far it has not moved beyond looking for potential park residents—without which the entire construction project loses its commercial appeal.

One of the terminated Dutch projects in Ukraine is the sale by the insurance company Aegon of its subsidiary Aegon Life Ukraine to the local insurance group TAS.

Even though the amount of the deal is quite modest (about \$6 million), the reasons voiced by the investor indicate that the withdrawal is not an accident, but yet another episode in the “flight” of western companies from Ukraine that started in 2014 and continues even now. A company spokesman said that “the Aegon group resolved to withdraw from the Ukrainian market due to a significant change in the potential of that market. This is a very difficult decision that has been taken after two years of observation and in-depth analysis of developments in Ukraine” (Forinsurer, 2016).

On the whole, in 2016 we witnessed further unfolding of the trends that had emerged earlier: drying up of financial flows related to the use of the Netherlands as a “trans-shipment destination”, and vacillation of “real” investors caused by economic instability in the countries under review. The main source of growth of real investments was revaluation of assets acquired by companies in previous years. Dutch companies have an ample investment potential, and the number and value of Dutch investment projects in EAEU countries, Ukraine and, possibly, Azerbaijan and Tajikistan will begin to increase once the economic and political situation in those countries has stabilised.

3.2. “Return” of Austrian FDI to Russia and Other CIS Countries

2016 became a “watershed” year for Austrian direct investments in Russia. Following the 2014 events (which led to a reduction of FDI in Russia in general, and of Austrian FDI in particular), last year’s results again improved somewhat, with Austrian outward FDI stock in Russia up by more than 18%—the largest increase among all EAEU countries, Azerbaijan, Tajikistan, and Ukraine. Such significant growth metrics should not be viewed as merely compensatory: over the entire DIM-Eurasia data observation period, FDI from Austria has almost always demonstrated growth rates close to 20%. Therefore, the 2016 figures represent only the beginning of the compensatory process capable of offsetting the 2014–2015 shortfall (see Figure 9). Both relative rates and absolute figures describing Austrian investments indicate that the “recovery” process will not take long: in one or two years, FDI stock will exceed the levels registered in 2012–2013. Besides, 2016 data demonstrate that Austrian investors have promptly made adjustments for the operation of adverse factors inherent in the current Russian situation (the Ukrainian conflict, the sanctions regime, the domestic economic situation).

Improvement of Russia’s position, as perceived by Austrian investors, is also attested by the growing significance of Russia as the main centre of attraction for Austrian outward FDI in EAEU countries, Azerbaijan, Tajikistan, and Ukraine. While the adverse factors surfacing in 2014 drove down the share of Austrian FDI attributable to Russia in total FDI in the eight countries under review, in 2016 that indicator was already back to the level of 2013, when it reached almost 53%.

Acceptability of the Russian investment climate for Austrian companies is evidenced by vigorous activity in Austrian projects throughout 2016. In particular, slightly more than one third of projects owned by Austrian companies secured fresh capital injections. Players operating in wood processing and wood products manufacturing continue to enjoy the most “protection” in terms of investment prospects:

3. DIRECT INVESTMENTS BY EURASIAN COUNTRIES IN THE POST-SOVIET AREA

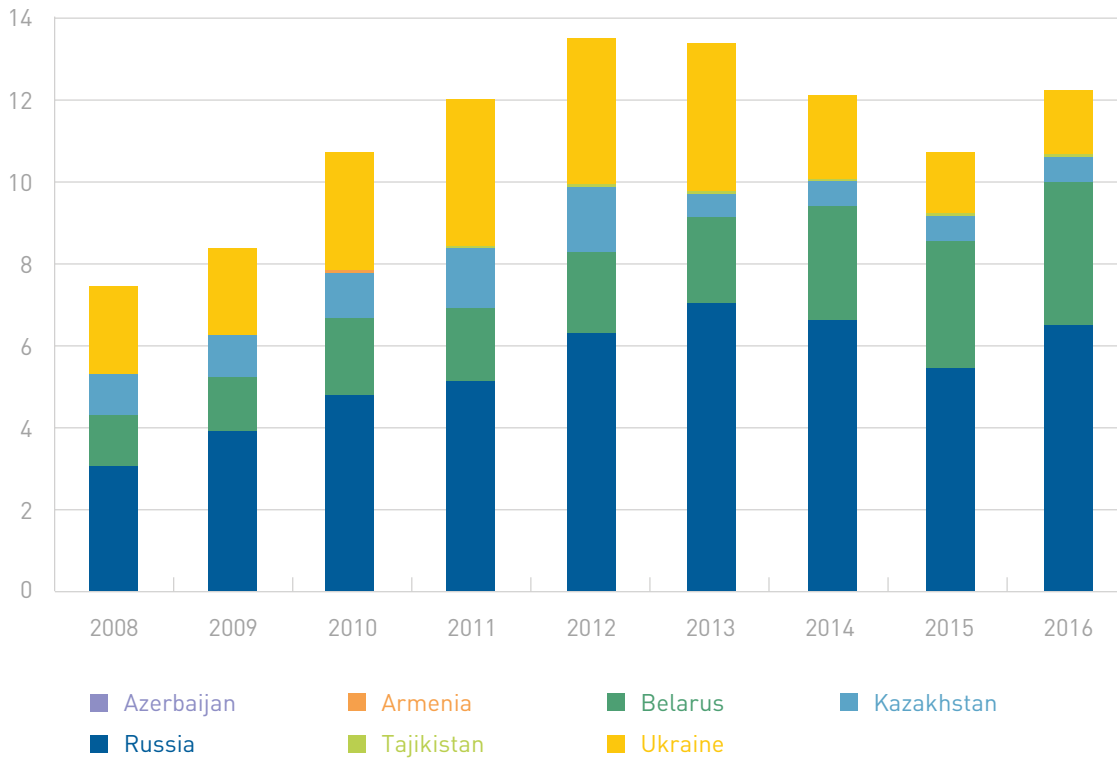


Figure 9. Changes in Austrian Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion

they account for about 70% of all projects that received additional FDI. Austrian projects in Mechanical Engineering and Construction also got extra funding. The highest absolute growth rates were posted by Finance, in particular by Raiffeisenbank, with equity close to \$2 billion. The highest relative growth rate with the small initial investment was recorded for FDI related to the joint Voith Hydro and RusHydro project for construction of a hydraulic turbine plant in Saratov Region.

New project operations, as a form of investment activity by Austrian companies, remain at the level of the “crisis” year of 2015, well below what was registered in previous years. In 2016, there were few new projects, and all of them involved investments in Other Industries and Agriculture and Food Products, traditional priority targets for Austrian companies. Total investments in new projects did not exceed \$10 million, with Austrian investors continuing to maintain a cautious stance at the initial stages of the investment cycle, characterised by heightened risks due to adverse factors in the Russian market.

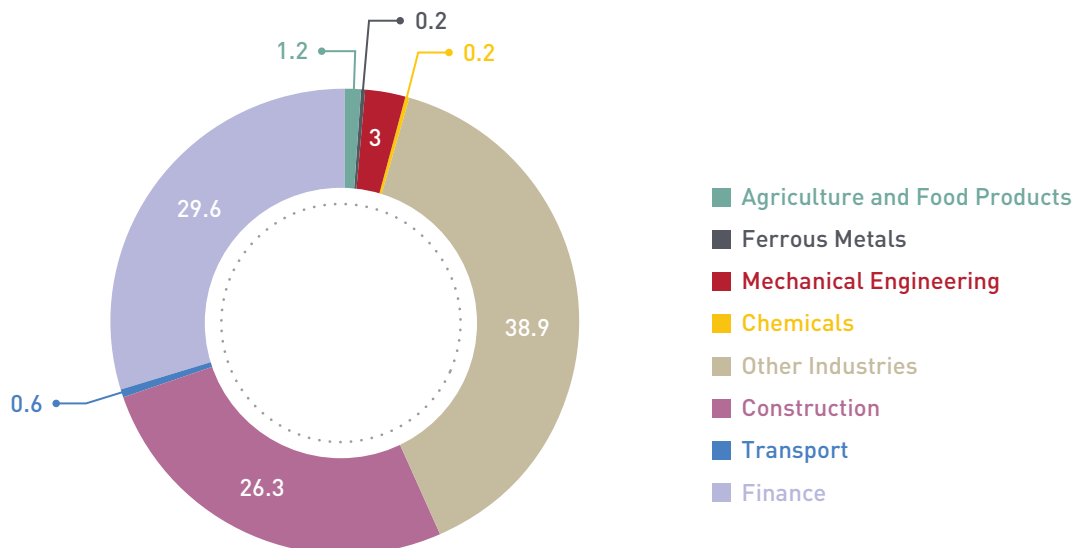
Situations where truly Austrian projects (as opposed to projects where Austria is used as a “trans-shipping destination”) are closed down by way of liquidation or asset sale, are relatively rare. Based on their perception of the long-term prospects of the Russian market, Austrian companies seek to maintain their investments, preferring to “moth-ball” their projects rather than eliminate them completely. However, changes in the Russian business environment (including unfavourable environment in certain sectors,

for example, in Construction) and in global strategies pursued by Austrian companies are causing some investors to withdraw from Russia. The year 2016 was not an exception in that respect. Like the year before, Austrian companies terminated only a few projects, all in Chemicals, Construction, and Oil and Gas. Divestment amounted to merely several dozen millions of dollars, or less than 1% of total Austrian outward FDI stock in Russia, and were offset by new investments in the remaining projects.

From Figure 10, it is clear that Austrian direct investments in Russia are generally concentrated in only three sectors: Other Industries (primarily wood processing, wood products manufacturing, and pulp and paper production), Finance, and Construction. In the future, however, this long-standing trend may change, with Austrian FDI being channelled primarily into Russia's key economic specialisation sector, Oil and Gas. The forthcoming restructuring will be based on an agreement with respect to OMV Group joining oil and gas projects in Yamal-Nenets Autonomous District. Of particular note is the acquisition of a 24.9% stake in Severneftegazprom for about \$1.9 billion, which is set to become the largest Austrian direct investment in Russia.

If OMV Group plans are implemented, it will change not only the sectoral structure, but also the regional structure of investment preferences on the part of Austrian companies. Austrian FDI in Russia has a classical territorial distribution, with the overwhelming majority of projects concentrated in the capital area (City of Moscow and Moscow Region). In value terms, the City of Moscow and Moscow Region have accumulated almost 80% of all Austrian FDI in Russia. However, that figure dropped to below 60% as a result of the negative events of 2014 (with Finance being hit the hardest). The 2016 results show that the capital area is gradually recovering its dominance (with more than 66%), but this process is likely to slow down or even come to a complete stop. Regional diversification of Austrian FDI may prove to be one of the contributing factors: Austrian companies are gradually spreading out beyond the central region. The most popular destinations include

Figure 10.
Sectoral Structure
of Austrian Outward
FDI in Russia
(End of 2016), %



the north and northwest of the European part of Russia and the Volga region, with few, if any, large Austrian projects east of the Urals. About 30% of all projects are located inside the capital area, while the Urals-Volga region comes in second with about one in four projects. Implementation of OMV Group plans will make the relevant projects the largest Austrian investments outside the European part of Russia.

Major changes also occurred in 2016 in other EAEU countries (excluding Russia), Azerbaijan, Tajikistan, and Ukraine. For example, Belarus continued to reinforce its positions, becoming the second most important centre of gravity for Austrian FDI among the eight countries under review. It currently accounts for slightly less than 30% of total Austrian FDI. The role of Belarus as the second centre is secured not by new projects, but rather by high investment activity in existing projects. According to the DIM-Eurasia Database, by the end of 2016 Austrian outward FDI stock in Belarus reached \$3.5 billion.

The share of Ukraine, an erstwhile leader second only to Russia, continued to shrink, and by the end of 2016 dropped to 13%, with more FDI flows being diverted to Russia and Belarus. Total increase of Austrian outward FDI stock in Ukraine in 2016 was a meagre 2.6%, which was completely insufficient to fill in the huge gap created by the loss of more than half of Austrian FDI stock after the 2014 events and their aftermath. It should be noted, though, that the remaining Austrian FDI stock in Ukraine has become relatively stable: existing projects receive additional investments, some projects have been closed, and only a handful of investors dare to start new projects.

Outside Russia, Belarus, and Ukraine, there are very few projects with Austrian FDI, even though national authorities are more than eager to attract Austrian investors. Austria's role as a "trans-shipping destination" for post-Soviet investors only makes things worse, as it is very seldom possible to ascertain whether a particular project is 100% controlled by third-country investors. As a result, for example, in 2016 Austrian outward FDI stock in Armenia, as recorded in the DIM-Eurasia Database, decreased several-fold after Austrian/Kazakh investors had withdrawn from a project in Armenia's Finance sector. The investment climate in Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan remains unattractive for Austrian investors, and this is likely to continue in the near term.

3.3. Significance of Investment Cooperation between the EAEU and Serbia

Serbian FDI remains modest even in comparison with the other countries that emerged after the dissolution of Yugoslavia. According to UNCTAD 2016 year-end data, it amounted to merely \$3 billion (UNCTAD, 2017, pp. 226–229), while Croatian and Slovenian outward FDI stock was \$5 billion and \$5.7 billion, respectively. This is related to the fact that it took Serbian companies longer than others to follow the path of transnationalisation. Even when international sanctions were lifted, their foreign expansion in the early 2000s was constrained by the fragility of the Serbian economy, which was nearly destroyed by years of military hostilities: most companies lacked free cash to expand their domestic operations, let alone invest abroad. Besides, the growth of direct

capital investments was impeded by the fact that many enterprises, many of them operating at a loss, were still owned by the state, as even in the 2000s privatisation was very slow (Vujačić and Vujačić, 2011, pp. 100–101). Most foreign investments at that time were made by private companies, primarily those that were controlled by foreign capital (Tarkett), or had managed to raise funds by selling some of their own assets to foreigners (Delta Holding).

The interest in investment exploration of the post-Soviet area that Serbian businessmen began to display as early as the beginning of the 21st century is fuelled by several factors, particularly long-standing traditions of cooperation (back in the Soviet era, Yugoslav companies were often awarded large-scale state construction contracts), rapid economic growth in the CIS in the 2000s, and the high level of political dialogue between Serbia and the former USSR republics (especially Russia and Belarus). It should be noted, however, that not all Serbian companies that announced their intention to work in that region actually made any noteworthy investments. In most cases, preference was given to less costly forms of economic interaction, such as establishment of trade representative offices to promote Serbian exports, or opening of foreign offices of construction companies working under contract. Thus despite the seeming variety of companies with Serbian equity participation operating in CIS countries, at the end of 2016, total Serbian FDI stock in the companies covered by the DIM-Eurasia Database amounted to merely \$444 million. Even though that figure is much higher than the official statistical data (for example, for Russia the difference is almost fourfold), the share of Serbian capital investments in total FDI received by CIS countries is still negligible.

Investment projects with Serbian participation valued at more than \$3 million were registered only in three countries—Russia, Belarus, and Ukraine. In Kazakhstan, where companies with Serbian equity participation are also formally represented, their activities are limited to working under construction contracts (the best known example is the participation of Energoprojekt Niskogradnja PLC in the construction of the Almaly Station of the Almaty Subway System).

In Russia, which accounts for slightly more than half of Serbian investments in the countries under review, the leading investor is Tarkett d.o.o. (formerly known as Tarkett-Sintelon), a Serbian company with French equity participation headquartered in Bačka Palanka and specializing in production of floor coverings. The company owns two production facilities (in Otradnoye (Samara Region), and Mytishchi (Moscow Region)), and logistical centres in the Sverdlovsk, Novosibirsk, and Moscow Regions. The second-largest Serbian investor in Russia is Hemofarm, a pharmaceutical company with German equity participation, which launched a production facility in Kaluga Region in 2006. It was expected that it would be followed by other pharmaceutical companies (including one of Serbia's largest companies, Galenika a.d., which promised to invest €28 million in construction of a plant in Obninsk), but those plans never materialised. In addition, in 1995–2016 Serbian investors were represented in the Russian banking sector: individuals and legal entities from that country collectively controlled an 18% stake in EuroAxis Bank, specializing in foreign trade deals with Serbia and other countries of Southeastern Europe.

In Ukraine, Serbian investments were associated primarily with MK Group, which in 2006–2012 invested about \$60–65 million in agricultural production assets (lifts, dairy farms, etc.) in Kiev, Vinnitsa, Cherkassy, and Zhitomir Regions. Those projects were co-financed by the EBRD. However, due to the complexity of doing business in Ukraine, in 2013 the Serbian company discontinued active investment operations (Ertseg, 2013), and in the middle of 2017 it sold some of its Ukrainian assets to Kernel. Tarkett also has a presence in Ukraine, where it owns Vinisin LLC (a PVC flooring manufacturer from Ivano-Frankovsk Region), and a logistical centre in the environs of Kiev.

The key Serbian investor in Belarus is the construction company Dana Holdings. In 2016, it opened the Dana Mall trading centre in the Belarusian capital, and commenced construction of the residential and commercial compounds Mayak Minska (Minsk Beacon) and Minsk-Mir, co-financed by the company and local stakeholders.

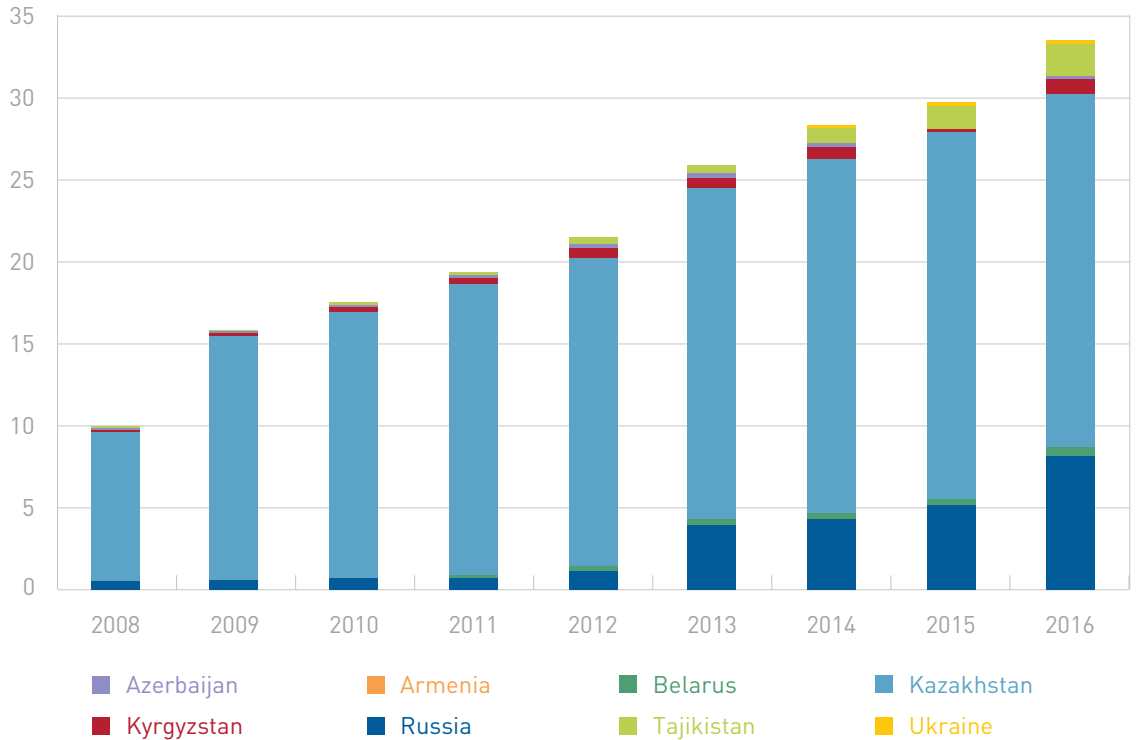
The prospects of future investments from Serbia in post-Soviet countries remain uncertain. Over the last several years, most growth has been generated by existing projects, while new projects normally do not advance beyond the memorandum-of-intent stage. This may be explained partly by the economic crisis in the CIS in the mid-2010s, and partly by the predilection of Serbian business to invest in neighbouring Balkan countries. The diversified company Delta Holding, for example, which had previously announced plans to open a network of retail stores in Russia, Belarus, and Ukraine, has focused instead on Bulgaria, Montenegro, and Bosnia and Herzegovina. In that connection (and taking into consideration the partial withdrawal of Serbian investments from Ukraine), it is entirely possible that 2017 statistics will show a reduction of Serbian FDI stock in the CIS countries under review.

3.4. Chinese FDI in the Post-Soviet Area

In 2016, the share of Oil and Gas in total Chinese outward FDI stock in the eight CIS countries under review continued to decline; all in all, the indicator has gone down from 86.8% in 2010 (including trunk pipelines which at that time were reclassified in the DIM-Eurasia Database from Transport to Oil and Gas) to 74.1% in 2016. This was partially attributable to the growth of the share of FDI in Chemicals and Non-Ferrous Metals. However, neither sector's share has yet exceeded 5%. Over the last six years, there has been a significant inflow of investment capital into Construction and Mechanical Engineering. Agriculture and Food Products has demonstrated vibrant growth for the last three years, even though related FDI stock is still rather modest. The share of FDI in Transport, on the other hand, has declined.

Over the last several years, considerable changes have occurred in the geographic distribution of Chinese FDI: the share of Kazakhstan has decreased from 92% to 64%, while the shares of Russia and Tajikistan have increased from 4% to 24% and from 1% to 6%, respectively. The last three years have witnessed an upsurge of interest by Chinese investors in Belarus, Ukraine, and, to a lesser extent, Kyrgyzstan. Investment activity of Chinese companies in Armenia and Azerbaijan is extremely limited, with no major projects recorded in those countries for the last several years (see Figure 11).

Figure 11. Changes in Chinese Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion



In 2016, Chemicals and Oil and Gas became the two largest Chinese FDI recipient sectors. This became possible due to two large deals executed in the Russian market, namely, acquisition of a 10% stake in Sibur PJSC by the Chinese Silk Road Fund, and acquisition of a 20% stake in Verkhnechonskneftegaz PJSC by the Beijing Gas Group Company Limited, which together accounted for 90% of total investments in new projects in 2016. The first deal was closed in January 2017, and the Chinese share in the company's capital (including Sinopec investments in 2015) has increased to 20%. It is not clear at this time whether those investments are of a long-term nature, or the investors intend to sell their holdings after the company's IPO scheduled for 2019. The sale of the 20% stake in Verkhnechonskneftegaz PJSC was closed in June 2017, enabling entry into China's domestic gas market. The advent of the Chinese investor creates conditions conducive to commencement of bilateral cooperation in East Siberia and the Far East at all stages of the gas production cycle, from exploration to production and sale. The project envisaging construction of the Amur Oil Refinery with 90% equity participation by Chinese investors has evoked mixed reactions, due both to problems related to supply of raw materials, and implementation progress: over the few years only preparatory construction has been completed (Tsentr izucheniya regional'nykh problem, 2016). Significant investments were made in Chemicals in Tajikistan: a Chinese company acquired a 50% stake in Azot OJSC (Nitrogen OJSC), and committed to invest a further \$360 million in modernisation of production facilities over a period of three years.

The geography of Chinese investments in Finance is gradually expanding, while previously they were restricted to the banking sectors of Russia and Kazakhstan. In June 2017, the Chinese Bohai Commodity Exchange registered the purchase of a 99.9% stake in the Ukrainian Bank for Reconstruction and Development. Having taken hold in the new market, the company will facilitate active involvement of Chinese companies in Ukraine's privatisation plans. Another deal closed in June 2017 was the sale of a 60% stake in the Kazakhstan's Altyn Bank to Chinese investors (CITIC Bank and China Shuangwei Investment). The joint bank is expected to play the central role in financing projects within the framework of the Nuryly zhol and Silk Road Economic Belt programs.

In 2016, Russia became the priority target destination for new projects with Chinese FDI in terms of both the number of such projects (five out of eight new projects in the EAEU) and the share of total invested capital (94%). Over the last five years, Chinese FDI in the Russian economy has been growing at an average rate of 57% per year. Including the latest deals, 82% of total Chinese outward FDI stock was concentrated in Oil and Gas and Chemicals. Examples of investments in other sectors include the purchase of a 23.1% stake in Detskiy Mir OJSC (Children's World OJSC) by the Russian-Chinese Investment Fund in January 2016. The Fund contributed to a successful Detskiy Mir IPO, resulting in a reduction of its share in the company's capital to 13.1% in February 2017.

Over the last several years, most hopes for intensification of investment cooperation between China and Belarus have been associated with the megaproject Great Stone Industrial Park, unofficially referred to as the "pearl" of the Silk Road Economic Belt. While previously the project's viability raised certain doubts, in the beginning of 2017 several positive changes occurred. Only eight residents were registered in the industrial park in the first three years of its existence, but by September 2017 their number increased to 19. Visits by Chinese delegations of varying importance have become more frequent. This is due to the completion of scheduled works related to construction of basic infrastructure facilities, and the granting of a number of new exemptions to the park's residents, including exclusive preferential treatment, simplification of certain administrative procedures, and expansion of the list of permitted core operations. A considerable inflow of Chinese FDI is expected in the coming years in connection with the construction of numerous facilities both by already registered and new residents. Other notable Chinese investment projects in Belarus include semi-knocked down assembly of Geely motor vehicles. The Chinese-Belarus JV BelGee has been accorded, in advance, the status of a local manufacturer and, to retain its ability to engage in duty-free exports from Belarus to the other EAEU countries (the share of exports to Russia was planned at 90% of total production), it has to increase the localisation of production to 30% in 2017, and then to 50% by the beginning of 2018. However, in September 2017 the actual localisation of production at the factory was merely 14%. Overall, at the end of 2016, Transport and Mechanical Engineering accounted for 34% and 27%, respectively, of total Chinese outward FDI stock in Belarus, with Tourism and Construction shares at 16% each.

Until 2014, Chinese FDI in Kyrgyzstan existed only in two industries: oil refining and gold mining. At the end of 2016, these accounted for 97% of total Chinese outward FDI stock in the country. Two new projects in Construction have been launched over the last three years.

Construction of the Shangfeng Zeth Cement Plant, which started in 2014, was suspended a year later due to possible damage to the Datka-Kemin substation and the lack of required construction permits. Possible renewal of plant construction, subject to the use of more modern atmospheric discharge purification technologies, was discussed in September 2016. Construction of the \$50 million Tian-Shan Ceramic Plant started during the same month.

Investments in Oil and Gas projects (including trunk pipelines) still account for about 89% of Chinese outward FDI stock in Kazakhstan. At the end of 2016, a Kazakh-Chinese vegetable oil processing plant was opened within the framework of a program envisaging transfer of production facilities from China to Kazakhstan. The company's plans include creation of a large agroindustrial park. The scale of projects implemented under the program is generally still quite modest, but it may rapidly increase in the next several years with proper stimulation "from above".

A significant inflow of Chinese FDI into Tajikistan was noted following successful resolution of its territorial disputes with China in 2011, with the average annual increase over the last five years reaching 55%. The first investment projects were related to development of non-ferrous metals deposits, but over the last three years investor preferences appear to have shifted towards production of construction materials. At the end of 2016, Non-Ferrous Metals and Construction accounted for 46% and 20% of total Chinese outward FDI stock, respectively. Several projects are being implemented in Oil and Gas and Construction, including construction of the Tajikistan's section of the Turkmenistan-China gas pipeline and the first stage of an oil refinery in Dangara Free Economic Zone.

Chinese business came to Ukraine only about three years ago. With the exception of ten solar (PV) power stations received by the Chinese state company CNBM International by way of debt repayment, Chinese FDI is concentrated in Agriculture and Food Products. At the end of 2016 these two sectors accounted for 67% and 33% of total FDI stock, respectively. Investors are seeking full control over production chains, from cultivation and processing of grain and vegetable oil crops to their storage and transport.

3.5. FDI Originating from Other Northeast Asian Countries

According to the DIM-Eurasia Database, Armenia is the only EAEU country, and Azerbaijan is the only non-EAEU country covered by the DIM-Eurasia Database, which has no Japanese investments.

Direct investments are distributed quite unevenly, with 65% of total investments concentrated in Oil and Gas. Out of the other branches covered by the DIM-Eurasia Database, there are no Japanese projects in Infrastructure Networks, Construction, or Communication and IT.

At the end of 2016, Japanese outward FDI stock in EAEU countries, Azerbaijan, Tajikistan, and Ukraine amounted to \$15.6 billion. Russia remains the leading recipient of Japanese direct investments with \$15.1 billion in 2016 vs. \$14.8 billion in 2015. Even though the indicator has increased year-on-year in absolute terms, the share of Russia in total Japanese FDI has not changed, and stands at 96%. A number of reasons are behind this,

including strengthening of the rouble, and the emergence of previously unavailable adjusted data about relevant transactions.

During the reporting period, Japanese investors were the most active in Finance, where they were busy boosting equity of jointly owned financial institutions, and acquiring additional stakes in foreign assets, primarily in Russia. This trend is likely to continue—in 2017, the Japanese financial group SBI Holdings agreed with its Russian partners to increase its stake in CB Yar-Bank LLC to 100%, whereupon the bank will be fully controlled by the Japanese holding. In addition to that, the Sawada Holdings group intends to enter the Kyrgyz Finance sector by buying a large stake in Kyrgyzcommerzbank before the end of 2017.

In Kazakhstan, Japanese companies focus mostly on Non-Ferrous Metals. In particular, the Energy Asia BVI Limited consortium owns a 95% stake in Baiken-U LLP, the company developing the North Khorasan uranium deposit in Zhanakorgan District of Kyzylorda Region. Recently Sumitomo Corporation, in addition to development of the Zapadny (Western) Block, commenced industrial production of non-ferrous metals in Kazakhstan. The company's investment stock amounts to about \$45 million. According to adjusted data, total Japanese outward FDI stock in Kazakhstan is \$267 million.

In Ukraine, there are two projects with Japanese FDI, one in Agriculture and Food Products, and one in Mechanical Engineering. At the beginning of 2016, the Japanese company Fujikura opened an automotive components plant. In 2013–2016, the company's investments in construction of the plant exceeded \$6 million. 2016 year-end FDI stock related to the other project with Japanese participation, Kremenchug Tobacco Factory, was about \$243 million.

The number of Japanese projects is rather small compared to those originating from other EAEU and Central Asia countries. In Belarus, there is only one joint venture with a group of Japanese investors for the production of laser systems and spectroscopic/spectrographic equipment for scientific, medical, and industrial applications. The venture was launched back in 1996; the original contribution by the Japanese investors was \$275,000, and no additional capital injections have been registered to date.

According to the DIM-Eurasia Database, Tajikistan also has one joint venture with the Japanese consortium Cokey System. The Avvalin Plant, with Japanese equity participation of 49%, manufactures glycyrrhizinic acid, used as a raw material in the pharmaceutical industry.

At the end of 2016, total South Korean outward FDI stock in EAEU countries, Tajikistan, and Ukraine amounted to \$5.4 billion. South Korean FDI in the post-Soviet area is concentrated mostly in Kazakhstan and Russia. The other countries of the region collectively account for less than 4% of total South Korean FDI stock. No projects in Armenia or Azerbaijan are recorded in the DIM-Eurasia Database.

South Korean investment flows to the post-Soviet area are rather poorly differentiated. Out of the branches mentioned in the DIM-Eurasia Database, Oil and Gas, Mechanical Engineering, and Agriculture and Food Products account for most projects and FDI originating from South Korea.

Interestingly, Russia is not the main recipient of South Korean FDI (unlike, say, Japanese direct capital investments), even though it holds a hefty 39% share. The bulk of direct investment goes to Kazakhstan. In 2008, Kazakhstan accounted for 64% of total South Korean outward FDI stock in the countries under review, going up to, and staying at, 57–58% in 2011 and subsequent years. The largest project is the construction business of Dongil Highvill, a company operating in the primary market for elite real properties in Astana, the capital of Kazakhstan. Several large projects in Oil and Gas are being implemented by the South Korean firm KNOC, which has been engaged in mining operations at numerous deposits in Kazakhstan and in the north of the Kazakhstan's sector of the Caspian Sea since 2009. Another notable investor is LG International, which owns a 35% stake in the ADA Block of an oil field in Aktobe Region, and an Almaty-based production facility manufacturing consumer electronics (mostly LCD television sets) under the LG trademark. Russia is the second-largest recipient of South Korean investments. At the end of 2016, South Korean outward FDI stock in Russia amounted to \$2.1 billion. Unlike in Kazakhstan, South Korean companies are not represented in the Russian Oil and Gas sector, with most capital investments concentrated in Mechanical Engineering.

The largest South Korean project recorded in the DIM-Eurasia Database is the construction of a full-cycle Hyundai parts manufacturing and motor vehicles assembly plant in Leningrad Region. FDI stock accumulated by Hyundai Motors since 2008 exceeds \$700 million. The plant is currently Russia's second-largest motor vehicle plant. Hyundai Heavy Industries assets further include the Russian agroindustrial plant Horol Zerno (Horol Grain) with a 67.6% stake owned by South Korean investors.

Another large company, Lotte, operates in three industrial sectors: Construction, Tourism, and Agriculture and Food Products. At the end of 2016, the company's investment stock in Russia exceeded \$800 million. In 2005, LG Electronics commenced manufacturing of household electronic and electric devices in Russia. In 2007 it was followed by the South Korean company Samsung. The two companies have invested more than \$400 million in Russian production facilities.

Four projects with South Korean FDI stock and a total value of \$15 million have been registered in Tajikistan. The largest of those projects is JV Kabool-Tajik-Textiles. In 2008, the plant was on the verge of bankruptcy. Before the crisis, it employed more than 400 workers and manufactured up to 35 million m² of cotton fabric. The plant resumed operations in 2010. Currently it is listed among the assets owned by Tajikistani Somon-Sugd CJSC.

The only South Korean company operating in the Ukrainian market is Samsung Electronics. In 2008, its FDI stock amounted to about \$120 million. Capital investments are used to finance research conducted by Kiev-based Samsung centres, and to expand the company's nationwide trade network.

In 2016, Belarus had no significant production facilities with South Korean investments. There are plans to create a Belarusian-Korean Information Access Centre in 2017 with the participation of the National Information Society Agency of the Republic of Korea. According to the Memorandum of Intentions, in 2017 Korean partners will allocate \$330,000 to finance joint projects. An additional \$330,000 will be invested in 2018, and \$340,000 in 2019, provided that the first stage of the cooperation program is successfully completed.

No major projects with the participation of Mongolian investors were noted in the post-Soviet area by the end of 2016. This is not surprising, as all Mongolian FDI worldwide amounts to less than \$400 million, and is heavily concentrated in the neighbouring Chinese regions. Still, some Mongolian investments may be anticipated in Siberia or Central Asia, based on the “neighbourhood effect”. Indeed, in 2014 there was discussion regarding the possibility of building a sugar plant in Kyrgyzstan. Two projects have been announced for 2017 in Russia: construction of a Buyan Cashmere factory in Irkutsk Region by the leading Mongolian company in this sector and construction of a tourist complex in the Republic of Buryatia by the Mongolian mining company Mongolyn Alt Corporation. The latter project, valued at RUB 6 billion, is to be implemented in Baikal Haven Special Economic Zone (*Vedomosti*, 2017).

3.6. Vietnamese and Singaporean FDI in CIS Countries: Prospects

Investors from Vietnam and Singapore have been actively involved in projects in post-Soviet countries since the mid-1990s. From 2008 to 2006, Vietnamese and Singaporean FDI stock in the region has been growing at an annual average rate of 10–11%. The significant impairment of Vietnamese assets in 2013–2015 in dollar terms was attributable to the rapid devaluation of the Russian rouble vis-à-vis foreign currencies. At the end of 2016, Vietnamese outward FDI stock in the region exceeded \$730 billion, with Russia, Ukraine, and Tajikistan accounting for 91%, 6%, and 3%, respectively. 2016 year-end Singaporean FDI stock reached \$1 billion, and was distributed among Russia (77%), Ukraine (15%), Azerbaijan (7%), and Kazakhstan (1%). No large-scale projects with Singaporean or Vietnamese FDI were recorded in the other countries.

Over the last decade, the sectoral structure of investments made by the two countries has undergone significant changes. While in 2008 Vietnamese FDI was concentrated in Agriculture and Food Products and Oil and Gas (55% and 39%, respectively), at the end of 2016 Oil and Gas accounted for 75%, the share of Construction increased from zero to 14%, and the share of Agriculture and Food Products decreased to 9%. As for Singapore, in 2008 its investments were distributed among Construction (55%), Mechanical Engineering (27%), and Agriculture and Food Products (19%), while at the end of 2016 Agriculture and Food Products became the top FDI recipient (42%), overtaking Transport and Construction (27% and 25%, respectively). Only two new projects have been implemented since 2012, which can be explained by a decline in Russia’s investment appeal as the region’s largest FDI recipient due to the currency crisis and imposition of sanctions.

The first investment projects undertaken by Vietnam in the post-Soviet area dealt with production of instant foods. A company with Vietnamese investments has been developing the Mivina brand in Ukraine since 1993; in 2010, it was sold to Nestle for \$150 million. One of the noteworthy projects spanning several countries is Mareven Food Holdings Limited, a company with equity participation by Japanese and Vietnamese investors. Since 1998, it has invested in production facilities in Russia and Ukraine (\$84 million and \$40 million, respectively), and created an extensive dealer network. Construction of a \$50 million pasta and semi-finished food products plant in Kazakhstan started in 2017.

The second wave of Vietnamese FDI resulted in the establishment in 2000 of the Tajikistani-Vietnamese silk-manufacturing companies VT Rokhi Abreshim and VT Silk. At the next stage (2008–2010), Oil and Gas and Transport became the priority FDI target sectors. Vietnam's largest project in the region was launched at that time: SK Rusvietpetro LLC, a joint venture created by Zarubezhneft (51%) and KNG Petrovietnam (49%). It is engaged in the development of oil fields in the Central Horeywer Elevation in Nenets Autonomous District. The steady increase of Vietnamese FDI in the region is supported mainly by investments in this project, and by the end of 2016 its share in total FDI stock exceeded 74%. The key objective of another joint project, Gazpromviet (with the participation of Gazprom PJSC), is joint development of the Nagumanovskoe Field in Orenburg Region and the Severo-Purovskoe Field in Yamal-Nenets Autonomous District. Preliminary work is under way at this stage, but so far investments in the project have been quite insignificant. A substantial inflow of investments is expected once operation of the fields begins. Two construction projects were also launched in 2010: the Novoseltsevo residential compound by the Ukrainian-Vietnamese developer Delta Valley VT, and the Hanoi-Moscow multi-functional compound by the Incentra investment and construction company.

Following the creation of an EAEU-Vietnam free trade area in October 2016, there has been an upsurge of bilateral investment cooperation in the region as a whole. Potential projects currently under discussion include construction of a garment factory and a Vietnamese coffee-processing and -packaging plant in Belarus, a textile factory in Armenia, large-scale dairy facilities in Russia, and several agroindustrial facilities in Ukraine. In 2016, a resolution was approved to establish a Russian-Vietnamese Investment Fund, with each of the parties contributing \$250 million to finance joint non-resource projects.

The peak of Singaporean investment activity in the post-Soviet area was in 2005–2012. In those years implementation of nine out of twelve current large-scale projects began. Five of those projects with total FDI stock of more than \$420 million are related to the food industry: Wilmar International owns vegetable-oil-processing plants in Russia and Ukraine, Food Empire owns instant coffee plants in Moscow Region and Cherkassy Region (Ukraine), and Olam International in 2012 acquired 75% stakes in Russian Dairy Company LLC and Azov Grain Terminal LLC. All three companies are actively investing in expansion and modernisation of their existing facilities. In 2012, yet another Singaporean investor entered the Transport sector: Changi Airport Group paid \$200 million for a 30% stake in Basel Aero, the managing company for airports in Sochi, Krasnodar, Anapa, and Gelendzhik. In 2016, Changi Airport Group executed a second acquisition deal for a 33% stake in Vladivostok Terminal CJSC, which owns the Knevichi Airport building in Vladivostok and controls Vladivostok International Airport JSC. This shows that foreign investors are increasingly interested in core assets in the Far East, which is a direct consequence of government policies designed to assure further development of this region.

The Singaporean company Keppel Offshore and Marine holds the leading positions in manufacturing marine drilling rigs and specialised vessels, which explains its interest in high-potential projects, including those in the CIS. The company currently owns stakes in two production projects in Azerbaijan: a 10% stake in Baku Shipbuilding Plan LLC

which was put into operation in 2013, and a 75% stake in Caspian Shipyard Company which specialises in installation, repair, and maintenance of oil and gas platforms on the Caspian shelf. A similar project was being implemented in partnership with Kazakhstan, but in 2013 Keppel Offshore and Marine withdrew from, and sold its stake in, that project. A number of large-scale projects are also being implemented by Singaporean companies in real estate construction, including construction of the Yaroslavskiy Residential Compound with the participation of GIC Real Estate, and of the Orchard Residences Residential Compound by the Malaysian-Singaporean construction company Kumpulan Parabena Sdn.

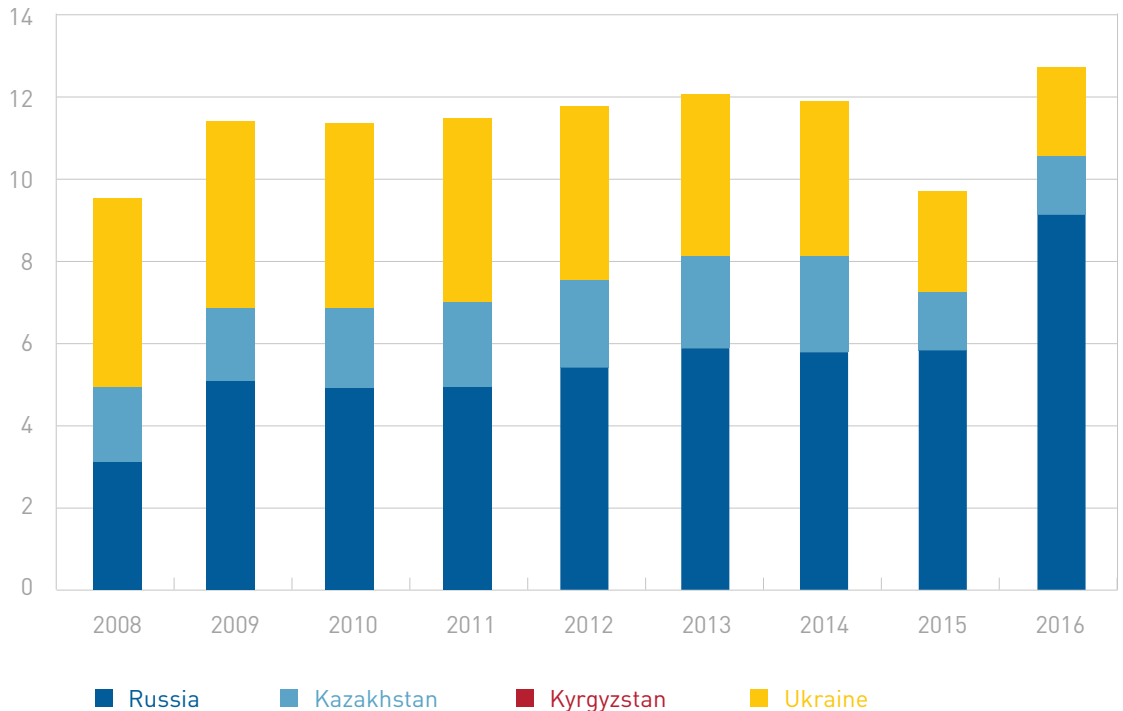
3.7. Indian FDI in CIS Countries: Underutilised Potential

India invests mostly in Russian Oil and Gas. The main investors are companies owned or controlled by the state. The actual investment potential of the Indian private corporate sector remains a mystery. In our opinion, bilateral relations would benefit from interregional cooperation (direct cooperation between Russian and Indian regions), as it would support closer and more fruitful economic ties between the two countries. This is particularly true for agriculture—exchange of experience and attraction of mutual investments in that sector. Indian pharmaceutical companies are not in a hurry to create joint ventures in Russia, which is really a pity, because many Russian consumers often give preference to Indian medicines (both Ayurvedic and industrially manufactured ones) based on their attractive price/quality ratio. Such plants could provide a solid foundation for the strengthening of bilateral relations not only in the pharmaceutical industry, but also in medical science. For the time being, the only successful example of Russian-Indian pharmaceutical cooperation is the creation by the Russian Diod and the Indian Aurobindo Pharma of a pharmaceutical plant (total capacity: 3 billion pills and 180 million capsules per year) in Podolsk District of Moscow Region.

Being fully aware of the difficulties associated with attempts to compete with China in the area of project finance and execution of new mutually beneficial contracts with Russia, India has decided to look for allies in Central Asia, and is actively pursuing investment projects in that region. However, only Kazakhstan has succeeded in attracting meaningful Indian FDI, and even Kazakhstan is still far behind Russia and Ukraine, despite the fact that over the last several years Indian FDI in those two countries has noticeably decreased (see Figure 12).

Kazakhstan is India's main partner in Central Asia. In 2016, trade turnover between the two countries amounted to \$618 million (Embassy of the Republic of Kazakhstan in India, 2017). According to the DIM-Eurasia Database, the value of Indian outward FDI stock in Kazakhstan approaches \$1.5 billion. A joint bank (TengriBank) was registered in Almaty to support investment and trade between Kazakhstan and India. The two countries are also actively cooperating in the nuclear power field, and India has managed to acquire a 25% stake in oil exploration works in Satpayev Block. The contract establishes that OVL (ONGC Videsh Ltd) may sell any field in Satpayev Block to the partners, and use the proceeds to purchase assets elsewhere (Amreev, 2011). This is largely explained

Figure 12.
Changes in Indian
Outward FDI
in EAEU Countries,
Azerbaijan, Tajikistan,
and Ukraine,
2008–2016, \$ billion



by the fact that there is currently no viable route that could be used to deliver oil from Kazakhstan to India. Bilateral economic relations are also actively developing in the areas of pharmaceuticals and information technologies. It would be fair to say that Indians perceive Kazakhstan not only as their strategic partner in the region, but also as an economically important ally: India's interests go beyond the Kazakhstan nuclear power industry and the oil and gas sector to include the ever-increasing prospects of mutually beneficial cooperation in manufacturing.

There is a good chance that Indian ties with Belarus will expand quite significantly. Negotiations are currently under way regarding a possible \$100 million credit from India to finance construction and development of the industrial zone in an industrial and logistical compound in the settlement of Bolbasovo, Orsha District. There is also a plan to create several Belarusian-Indian JVs to manufacture electronics, household appliances, medicines, clothes, and footwear. It is expected that several joint Belarusian-Indian pharmaceutical production facilities will be launched in Belarus in 2017–2018 (Sputnik, 2017).

3.8. Turkish FDI: Overcoming Negative Political Consequences

At the end of 2016, Turkey, despite a number of negative factors such as the recent crisis in relations with Russia and the worsening macroeconomic indicators in most CIS countries, remained one of the largest FDI exporters (among Asian countries) to the countries

of the post-Soviet area under review. At the end of 2016, total Turkish outward FDI stock in EAEU countries, Ukraine, Azerbaijan, and Tajikistan amounted to \$11.6 billion, a slight year-on-year increase (from \$11.1 billion).

The stability of Turkish investment stock is largely attributable to the high degree of diversification of Turkish FDI. Projects with Turkish capital participation were registered in all of the countries listed above, with the exception of Armenia (see Figure 13).

Russia is Turkey’s largest partner (compared to the other countries under review) in terms of its share in total Turkish FDI stock (approximately 45%, or \$5.1 billion), accounting for about half of all presented transactions. In 2015 and early 2016, mutual investment activity of Turkey and Russia was in decline due to the rapid deterioration of bilateral relations following the downing by the Turkish Air Force of a Russian warplane over Syria, and the subsequent imposition of retaliatory sanctions by Russia. For more than six months, all bilateral ties were de facto frozen. Two things proved to be the most painful for Turkish companies. First, restrictions imposed by Russia on performance of certain works (provision of certain services) in the Russian Federation by entities registered in the Turkish Republic. Second, as of January 1, 2016, it was prohibited for employers not included on a special “White List” to hire Turkish citizens (with the exception of those who had already been working under labour contracts with those employers as of December 31, 2015). However, those sanctions affected predominantly small companies, while the leading Turkish investors and contractors made it to the “White List”. As a result, the sanctions had little, if any, effect on the projects that were already under way, but instead forced Turkish companies to refrain from new investments.

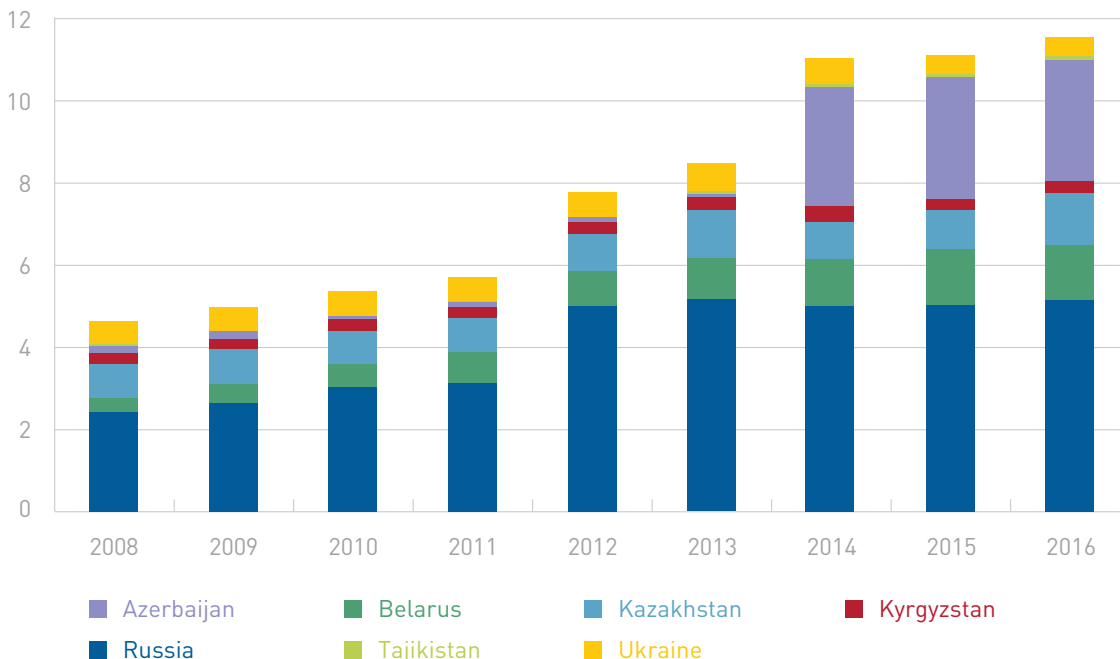


Figure 13. Changes in Turkish Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine, 2008–2016, \$ billion

Restrictions on Turkish imports inflicted damage on subsidiary banks specializing in provision of banking services to Turkish exporters. Another important factor was the economic stagnation in Russia, which affected the inflow of Turkish investments not only in Construction, but also in other sectors. For example, production of rubber automotive parts by Teklas Kauçuk A.Ş. in Mari El was discontinued even before the Russian-Turkish crisis; those products are currently manufactured at a similar plant of the Turkish investor in Bulgaria. In 2016 the same thing happened to Vestel-SNG LLC (a household appliance manufacturer) in Vladimir Region, the Turkish investor associates its withdrawal only with the deterioration of the economic situation in Russia.

After a series of negotiations at various levels, and the first post-crisis meeting between Russian President Vladimir Putin and Turkish President Recep Tayyip Erdoğan in August 2016 in Saint Petersburg, relations began to gradually stabilise. After the meeting, Putin and Erdogan declared their willingness to restore cooperation in all areas and, in particular, to revive trade and economic interactions and find a compromise on Syria. Special attention was devoted to restoration and increase of the value of investments and trade turnover. However, no rapid intensification of investment activity was registered in 2016.

The two countries renewed the operation of the Mixed Inter-Governmental Russian-Turkish Commission on Trade and Economic Cooperation (its regular meeting was held on October 10–12, 2016, in Istanbul). Consultations are under way to negotiate the wording of two bilateral documents which are critically important for further development of trade and economic ties between Russia and Turkey: *Inter-Governmental Mid-Term Trade, Economic, Scientific, Technical, and Cultural Cooperation Program for 2017–2020*, and *Inter-Governmental Agreement on Trade in Services and Investments*. The parties intensified their efforts to create a Joint Russian-Turkish Investment Fund. Russian regions are renewing their direct contacts with Turkish partners.

Turkish investments in Russia go mostly into Construction, Finance, Agriculture and Food Products, Ferrous Metals, Mechanical Engineering, Wholesale and Retail Trade, Chemicals, and other manufacturing industries. According to our research, at the end of 2016, total Turkish outward FDI stock in Russia stood at about \$5.1 billion. The largest number of deals was attributable to Other Industries: there were approximately 15 transactions, with total investments of about \$1.5 billion. The most notable of those are the medium-density wood-fibre board plant run by Kastamonu Integrated Wood Industry LLC in Alabuga Special Economic Zone in the Republic of Tatarstan (investor: Kastamonu Entegre; total investments estimated at \$415 million), and the Kastamonu wood-processing plant in Kaluga Region (total investments estimated at \$200 million).

The number of deals in Construction is smaller than in the other sectors, but the amount invested is higher. All in all, we have identified eight deals in this sector with total investments of \$1.55 billion. The four largest facilities in the sector account for \$1.4 billion. One of the largest projects is Aleksandrovsкая Sloboda Technological Park in Vladimir Region (investor: Sefa İnşaat Proje Taahhüt Sanayi ve Ticaret Limited Şirketi; total investments: \$600 million). Total investments by Renaissance Development in the three largest projects in Saint Petersburg, Yaroslavl Region, and Khanty-Mansi Autonomous District amounted to \$810 million.

A sizeable share of total FDI stock is attributable to Agriculture and Food Products (\$1.06 billion). Examples of major facilities include Efes Rus CJSC, with breweries in Kazan, Kaluga, Ulyanovsk, Novosibirsk, and Ufa (investor: Anadolu Efes Biracılık ve Malt Sanayi A.Ş.; total investments: \$904 million).

The Ferrous Metals sector is represented by only one facility—Tikhvin Ferroalloys Plant in Leningrad Region, with total investments of \$216 million. The investor company is Yıldırım Group. Two facilities have been registered in Mechanical Engineering: Beko LLC (Vladimir Region) and Coşkunöz Alabuga LLC (Alabuga Special Economic Zone, Republic of Tatarstan) with total investments of \$199 million. One of the noteworthy projects in Wholesale and Retail Trade is the LC Waikiki Store Network, which is present in virtually all of the countries under review. Total FDI stock invested in that project in Russia is \$40.5 million.

Notably, at this stage of their investment activity in Russia, Turkish companies apparently prefer to boost their capital investments in the Russian regions rather than in the capital cities.

Belarus is the second largest recipient of Turkish investments after Russia. At the end of 2016, total Turkish outward FDI stock in Belarus amounted to \$1.3 billion. Turkish capital here is present in Communication and IT, Construction, Tourism, Wholesale and Retail Trade, and Other Industries.

The largest FDI stock is concentrated in Communication and IT, including \$1 billion invested in BeST CJSC by Turkcell İletişim Hizmetleri A.Ş (another \$1 million was invested in the *Iz Ruk v Ruki* (From Hand to Hand) advertising newspaper by Doğan Yayın Holding A.Ş.).

The Construction sector features three facilities with total investments of \$245 million, including Galleria Minsk, in which Renaissance Construction invested \$150 million. The Tourism sector is represented by three facilities with total investments of \$64 million. In Wholesale and Retail Trade, there is an 11-store LC Waikiki network with total investments of \$50 million. Out of 11 projects with Turkish equity participation, five are located in Minsk and can be assigned to two sectors—Construction and Tourism.

Kazakhstan follows Belarus a little behind, with total Turkish outward FDI stock of \$1.25 billion. Turkish investments in Kazakhstan go mostly into Agriculture and Food Products, Ferrous Metals, Chemicals, Wholesale and Retail Trade, Finance, Construction, Mechanical Engineering, and Other Industries. In Agriculture and Food Products, there are four beverage production facilities with total investments of \$550 million. In Ferrous Metals, according to our data, there is only one facility with Turkish equity participation, Voskhod Mining and Beneficiation Plant, but associated investments are quite substantial at \$450 million. There are also significant investments in Chemicals, Wholesale and Retail Trade, and Construction. Other sectors have few or no investment projects.

At the end of 2016, total Turkish outward FDI stock in Azerbaijan stood at approximately \$2.9 billion. The bulk of that investment capital, represented first and foremost by the 19% stake in the Shah-Deniz Field (\$2.8 billion), was concentrated in Oil and Gas. The rest is distributed among Finance, Wholesale and Retail Trade, and Construction.

Ukraine accounts for merely \$545 million of FDI. This is largely attributable to military hostilities and the constantly deteriorating economic and political situation in the country. Companies generally try to avoid investing in unstable regions with fluid rules of the “game”. Due to the never-ending political crisis, many companies have chosen to withdraw their assets from Ukraine. The bulk of investments is currently concentrated in Communication and IT, where Turkcell İletişim Hizmetleri A.Ş. has invested about \$393 million in Astelit LLC. Its remaining investments are distributed among Construction (with about \$80 million invested in the “Turkish City”), Agriculture and Food Products, Finance, Other Industries, and Wholesale Trade. Until recently, that Turkish company Anadolu also owned production facilities in Ukraine (Private JSC Efes Ukraine), but at the end of 2015 operations at the Donetsk facilities were suspended due to the military and political events in the country.

In Kyrgyzstan, total Turkish outward FDI stock amounted to \$306 million, with \$150 million invested in the “Manas” Kyrgyz-Turkish University and the related technological park, and \$120 million in Construction. Nevertheless, the degree of diversification of Turkish investments in Kyrgyzstan is quite impressive, as Turkish capital has established a presence in Finance, Wholesale and Retail Trade, Transport, and Textiles.

Tajikistani-Turkish investment relations are gradually evolving. New production facilities are appearing in Tajikistan, although at the end of 2016 total Turkish outward FDI stock stood only at about \$100 million, and was distributed among Agriculture and Food Products, Construction, and Non-Ferrous Metals.

An important feature of Turkish FDI is its broad sectoral diversification: capital of Turkish origin is represented in almost all sectors of the economy (see Figure 14). Oil and Gas is the largest recipient sector in terms of FDI amount (but not the number of projects). At the end of 2016, its share in Turkish investments in the countries of the region reached almost 25%; however, if we combine direct investments with investments in other projects where Turkish companies act as minority portfolio investors, that share will become considerably higher.

The second place in terms of FDI stock is held by the numerous Construction projects. Agriculture and Food Products comes third, and is mostly represented by Anadolu Efes investments in production of beer and soft drinks in Russia and Kazakhstan. The fourth position goes to Other Industries, with wood processing and wood products manufacture, the pulp and paper industry, and the glass industry being the key recipients. Finally, the fifth position is occupied by Communication and IT, mostly based on Turkcell investments in the Belarus company CJSC BeST and the Ukrainian company Astelit LLC, both offering mobile communication services under the “lifecell” brand.

Among all sectoral preferences of Turkish investors, Finance warrants special mention. Turkish outward FDI stock in banks and insurance companies is relatively small, but the number of projects is quite large, and banks with Turkish equity participation operate in Azerbaijan, Kyrgyzstan, Ukraine, and Russia.

The same is true for Wholesale and Retail Trade: in 2014–2016, LC Waikiki—which, unlike many other Turkish companies, conducts its foreign operations not under franchise agreements, but as an independent investor—rapidly expanded its networks in Russia, Belarus, Kazakhstan, Kyrgyzstan, Azerbaijan, and Ukraine.

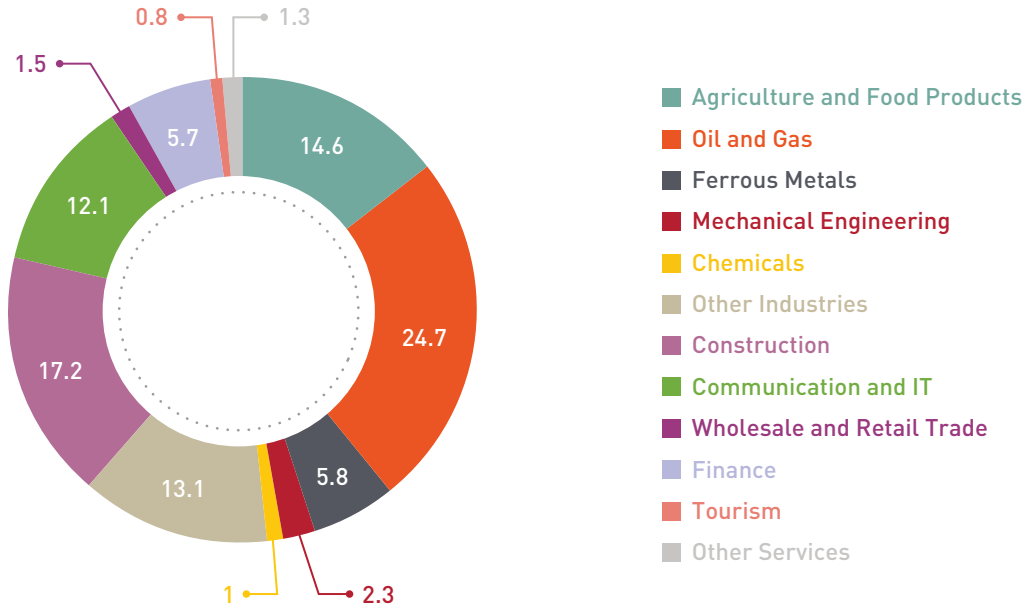


Figure 14. Sectoral Structure of Turkish Outward FDI in EAEU Countries, Azerbaijan, Tajikistan, and Ukraine (End of 2016), %

The rather tense political situation in Turkey, the failed coup attempt, plus the civil war in Syria, the Russian sanctions, and the overall economic instability remain, in their totality, a significant barrier in the way of investment flows from Turkey to EAEU countries, Ukraine, Azerbaijan, and Tajikistan. Of the countries listed above, Russia is likely to remain the preferred Turkish investment capital destination; however, as the economies of Azerbaijan, Kyrgyzstan, and Kazakhstan develop and become more diversified, Turkish investments in those countries may increase, among other reasons, due to possible attempts by the Turkish Government to spread the idea of pan-Turkism (including economic pan-Turkism). Clearly, in Kazakhstan and Kyrgyzstan, Turkey will encounter strong investment competition from China for profitable large-scale projects and, consequently, will seek to strengthen its investment positions in Central Asia by boosting capital investments in that area.

3.9. FDI Originating from Other Middle Eastern Countries

Iranian investments in CIS countries go primarily to Azerbaijan (Oil and Gas). The special relationship between Iran and Azerbaijan is largely based on religious and historical affinity and the geographic proximity of the two countries. Conversely, Iran's relationship with Tajikistan is currently going through a difficult stage due to major political differences. Tajikistan has become an arena of political and economic confrontation between Iran and Saudi Arabia. In an attempt to benefit from that confrontation, Saudi Arabia announced its intention to invest \$200 million in construction of the Tajikistan Parliament and Government Compound (interestingly, the compound is to be built at the site previously occupied by the Iranian Embassy in Tajikistan). Saudi representatives

have also declared their country's willingness to extend to Dushanbe a long-term credit to complete construction of Rogun Hydroelectric Power Plant, and allocated a \$35 million grant to build new schools.

There are no Saudi projects in Russia. However, in 2015 the two countries agreed to implement a large-scale Saudi investment project there worth \$10 billion, with RUB 300 billion earmarked for the construction of the Central Ring Motorway in Moscow Region. The Ministry of Transport of Russia is trying to get the Saudis interested in modernisation of the Taman Port (by 2025), and the Northern Latitudinal Railway project (Papchenkova and Lyutova, 2015). On the Russian side, those projects will be implemented by the Russian Direct Investment Fund (RDIF), and on the Saudi side by two sovereign funds, the Public Investment Fund and the Saudi Arabian General Investment Authority (SAGIA).

In 2017, during the St. Petersburg International Economic Forum, the delegation from Saudi Arabia expressed considerable interest in NOVATEK; the Saudis planned to visit the site of the company's key project—construction of a 16.5 million tonne LNG facility in Yamal (Yamal LNG)—but the trip did not materialise because of bad weather. The Saudi Government is also scoping out a possible joint project with Sibur, a company which has already built a rubber plant in India (Dzyadko and Knyazhevich, 2017).

The main issue (which reduces the efficiency of joint Russian-Saudi investment projects) is the absence of the agreements for mutual protection of investments and avoidance of double taxation. According to V. I. Matvienko, Speaker of the Federation Council (who was on an official visit to Saudi Arabia in April 2017), execution of such an agreement would be a major step to promote mutual investments by two countries (RIA Novosti, 2017).

Until recently, bilateral projects seldom, if ever, went beyond declaration of intentions, but the political decision to energise and expand Russian-Saudi economic contacts has resulted in a radical change in the investment strategies pursued by both countries. The meeting between V.V. Putin and Saudi Crown Prince Mohammad bin Salman (a political leader, Chairman of the Council for Economic and Development Affairs) held in late May 2017 was a breakthrough in bilateral relations between Russia and Saudi Arabia. Personal agreements between the Russian President and the Saudi Crown Prince have galvanised foreign economic ties between the two states, giving a new impetus to the development and implementation of new mutually beneficial projects.

Acting within the framework of an ambitious project styled *Vision 2030*, designed to expand the non-oil sector of the economy and to diversify economic, political, and cultural ties with representatives of various countries, the Government of Saudi Arabia has engaged in active cooperation with CIS countries in many areas. Multiple top-level meetings are being held in Belarus, Azerbaijan, Armenia, and Kazakhstan to search opportunities for mutually beneficial projects. Saudi authorities are determined to invest in EAEU economies; in addition to the religious factor and the possible economic and political benefits from projects in those countries, an important driver is the fact that the UAE (a long-standing competitor of Saudi Arabia) is rapidly expanding its footprint in the EAEU market.

Some of the reasons that prompt Persian Gulf States (particularly the UAE) to invest in countries that have never before been considered as their foreign economic priorities, include the sharp decline of oil prices and the falling profitability of traditional investments by the Gulf States in Europe, and their desire to diversify their foreign economic strategies, expand and intensify their trade and investment contacts, and acquire new technologies.

Following the imposition of Western sanctions, Russia is actively courting investors from the East. Accordingly, Russia has offered unprecedented economic incentives to attract investment capital from the Gulf States. On the eve of signing of documents to establish a joint investment fund with the UAE, the Russian Government approved an agreement with the UAE exempting investment income received by state companies from both countries from certain taxes. The agreement was signed in December 2011. The Arab side will be granted profit tax benefits, a zero dividend tax rate, and protection from taxation of interest payments and proceeds from the sale of property (excluding real property). Russian investors in the UAE will receive corporate profit tax and income tax benefits. One of the most important concessions is the use of the zero rate for the dividend tax (in Russia, this tax is assessed at the rate of 15%). Normally Russia is not so generous, and other countries usually get dividend tax rate cuts from 15% to 5–10%. It was the use of the zero rate that aroused serious interest on the part of government investors from the UAE.

Taking into consideration the fact that UAE investors are going to bring to Russia amounts incommensurate with those received from European countries, and the intended recipient sectors (such as highway construction projects with long payback periods), it is safe to assume that these UAE investment plans are strategic and geopolitical rather than commercial in nature.

The UAE is one of the key partners of Kazakhstan in the Middle East. Total UAE direct investments in that country amount to almost \$2 billion. There are about 200 businesses with UAE equity participation currently operating in Kazakhstan. One of the most notable examples of active foreign economic ties between the two countries is the bilateral investment project envisaging construction in Astana of Abu Dhabi Plaza, a \$1.6 billion multifunctional compound (some of the facilities comprising the compound are already in operation).

The Government of Kazakhstan has taken all requisite measures to attract foreign investors: in priority sectors, they get a ten-year exemption from income and land tax, and an eight-year exemption from property tax. Kazakhstan intends to make ample use of the rich experience accumulated by the UAE in creation and development of industrial zones. Kazakhstan authorities are prepared to allow UAE companies to manage such zones, and to use them to implement their investment projects. In addition, the Government of Kazakhstan is announcing large-scale privatisation, giving investors a chance to purchase facilities previously owned by the state (including the ones in mining, oil production, power engineering, transport, and communication).

The DIM-Eurasia Database contains records of UAE investments in Azerbaijan and Tajikistan. The media offer little information on specific UAE corporate investment projects in Azerbaijan, despite the numerous publications announcing that both the number

of investors and the amount of their investments are growing. According to the latest data, Azerbaijan has attracted 255 UAE companies and total FDI of \$778 million (*Arabskoe obozrenie*, 2017). Considerable UAE FDI in Azerbaijan is also registered by the IMF (IMF, 2016). However, these are either small intermediary firms, or Azerbaijani companies or third-country TNCs using the offshore opportunities offered by the UAE. A representative office of the Ajman Free Economic Zone will open in Azerbaijan in 2017. Azerbaijan will become one of the five countries with offices of the Ajman FEZ (other representative offices will be in China, Switzerland, Canada, and Hong Kong). It is expected that the opening of the offices will enable the FEZ to strengthen its ties with foreign investors, and stimulate inflow of fresh investment capital. At this time, rather modest UAE investments in Azerbaijan's neighbour Armenia have gone into an agricultural facility, specifically, a hothouse farm. However, the government hopes that the free economic zones of Armenia will become sites for effective cooperation in other sectors as well.

Compared to Saudi Arabia and the UAE, with 2016 year-end global outward FDI stock of \$80.4 billion and \$113.2 billion, respectively (according to UNCTAD), Egypt, another Middle Eastern Arab country, looks quite unassuming. Egyptian outward FDI stock amounts to slightly more than \$7 billion (UNCTAD, 2017, p. 226). The only globally significant Egyptian TNC is Orascom Construction Industries, which, unlike most other corporate investors from Egypt, does not restrict its FDI target area to the Middle East and North Africa. Still, there is no significant Egyptian FDI in CIS countries, nor is it likely to emerge in the immediate future because of the current economic and political situation in Egypt. Despite that, the media occasionally carry stories about the country's investment plans. For example, Egypt's Marcyrl Pharmaceutical Industries is reportedly going to invest in the Armenian pharmaceutical market. This project could kick-start economic interaction between the two countries. Egyptian investors are also showing some interest in joint textile projects. Last but not least, Egypt perceives Azerbaijan as a promising foreign economic partner, and is offering to start pharmaceutical production in that country.

Israeli companies have a special place among Middle Eastern investors in the CIS. The DIM-Eurasia Database contains only records of deals executed by large companies, while many investments made by individuals and non-transparent funds are excluded. The reason is that in such cases it is usually not clear whether we are dealing with Israeli citizens or people hailing from CIS countries and still holding passports of the countries targeted by their investments (in which case it would probably not be correct to refer to such projects as "foreign" investments). Still, even using that approach, the eight CIS countries under review have received more than \$1 billion in Israeli FDI (a couple of years ago, that figure was as high as \$2 billion). Therefore, in terms of investment presence in the CIS, Israel is ahead of, say, Singapore, a country boasting a global outward FDI stock larger than Israeli FDI by a factor of 6.7 (UNCTAD, 2017). The bulk of Israeli FDI in the post-Soviet area is associated with Russia and, to a lesser extent, Belarus and Ukraine. Investments in real estate play a special role (it was FDI from the Fischman Group and AFI Development that was strongly impaired as a result of the economic crisis), but recently Russia got its first major industrial facility built by a well-known Israeli TNC, as the Teva pharmaceuticals factory was put into operation in Yaroslavl Region in 2014.

Conclusion

While implementing the MIM CIS and DIM-Eurasia sister projects, we have reviewed, on an individual project level, a significant part of all capital investments that define corporate integration in Eurasia, and account for more than 1% of total global FDI stock. Inasmuch as these investment flows have not been properly explored by international organisations and foreign research centres, our analyses can provide valuable insights into cross-border capital flows in the post-Soviet area and neighbouring states.

It is, however, still possible to further enhance our analysis of mutual FDI in the Eurasian continent. In particular, it is necessary to undertake an in-depth study of the role played by “trans-shipping destinations” for FDI originating from third countries, including post-Soviet states. Furthermore, statistical material gradually accumulating in the DIM-Eurasia project creates conditions conducive to reviving quantitative research into the entire array of FDI. We have already attempted to conduct such research when reviewing mutual investments by CIS countries (Kuznetsov and Kvashnin, 2014).

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**Report 35 (RU / EN)****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.

**Report 36 (RU / EN)****Liberalization of the Republic of Belarus Financial Market within the EAEU**

The development of the EAEU requires a coordinated foreign exchange policy, harmonised 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, maximised 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 *Liberalization of the Republic of Belarus Financial Market within the EAEU*.

**Report 37 (RU)****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 organisations 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 organisations.

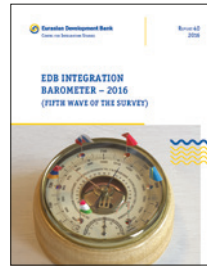
**Report 38 (RU / EN)****European Union and Eurasian Economic Union: Long-Term Dialogue and Perspectives of Agreement**

The 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".

**Report 39 (RU / EN)****Monitoring of Mutual Investments in CIS Countries – 2016**

The 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.

**Report 40 (RU / EN)****EDB Integration Barometer – 2016**

The report presents the results of the EDB Centre for Integration Studies' ongoing research project "EDB Integration Barometer". In 2016, 8,500 people from seven CIS countries (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, and Tajikistan) answered about 20 questions concerning the Eurasian integration and various facets of economic, political, and sociocultural cooperation in the CIS region. The research has been conducted by the EDB Centre for Integration Studies since 2012 annually in partnership with an international research agency "Eurasian Monitor".

**Report 41 (RU / EN)****EAEU and Eurasia: Monitoring and Analysis of Direct Investments – 2016**

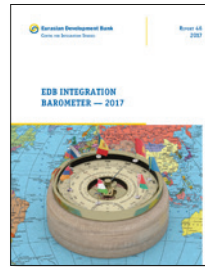
The report presents new results of the permanent research project dedicated to monitoring of direct investments in Eurasia. It focuses on investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia as well as reciprocal direct investments made by Austria, the Netherlands, Turkey, the United Arab Emirates, Iran, India, Singapore, Vietnam, China, the Republic of Korea, and Japan in the eight CIS countries listed above.



Report 42 (RU / EN)

Monetary Policy of EAEU Member States: Current Status and Coordination Prospects

Joint Report by the Eurasian Economic Commission and the Eurasian Development Bank
Eurasian Development Bank's Centre for Integration Studies and the Macroeconomic Policy Department of the Eurasian Economic Commission (EEC) conducted a research titled *Monetary Policy of EAEU Member States: Current Status and Coordination Prospects*. The main objective was to analyse monetary policies in the EAEU countries since the Treaty on the Eurasian Economic Union provides for deeper economic integration, including in the form of coordinated macroeconomic and foreign exchange policies.



Report 46 (RU / EN)

EDB Integration Barometer – 2017

The report presents the results of the sixth wave of population surveys in seven countries (five EAEU member states, Tajikistan and Moldova) where at least 1,000 people were polled (totalling approximately 8,000) within the EDB Centre for Integration Studies' ongoing research project "EDB Integration Barometer".



Report 43 (RU / EN)

Eurasian Economic Integration – 2017

The report reflects the directions, events, and decisions that determine the current vectors of the integration processes in the Eurasian Economic Union. The authors offer fresh data and analytical insights with respect to macroeconomic development; changes in trade and investment capital flows; the labor market; and progress in non-tariff barriers elimination.



Eurasian Economic Union (RU)

The monograph serves as a full-fledged introduction to the Eurasian Economic Union (EAEU)—its institutions, legal foundation, evolution, and, above all, economic integration issues. The authors focus on the common markets for goods, services, capital, and labour, as well as the EAEU foreign economic policies. They strive to provide a balanced analysis using a variety of approaches.



Report 44 (RU)

Exchange Rate Fluctuations within the EAEU in 2014–2015: Analysis and Recommendations

The report analyses the effects of the shock of commodity price drop and monetary policy measures implemented by the EAEU member states in 2014–2015 to stabilise their economies. The authors argue that those were exactly the different monetary policy approaches, applied by the EAEU member states in 2014–2015, that resulted in sharp fluctuations of mutual exchange rates, aggravating the economic crisis with problems in mutual trade that could have been avoided.



Report 45 (RU / EN)

Monitoring of Mutual Investments in CIS Countries – 2017

According to the eighth report of a years-long research project, after three years of decline (2013–2015), mutual FDI of the EAEU member states grew by 15.9% reaching US \$26.8 billion, mutual CIS and Georgia FDI stock increased by 7.9% to \$45.1 billion.



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 the 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, the 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 six years, the 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 47 reports and prepared more than 50 notes and briefs for Presidential Executive Offices, Ministries of EDB member states, and the Eurasian Economic Commission.

More detailed information about the 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:
<https://eabr.org/en/analytics/integration-research/about-cii/>.

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EAEU AND EURASIA: MONITORING AND ANALYSIS OF DIRECT INVESTMENTS 2017

This report presents the latest findings of a research project on the monitoring of direct investments in Eurasia, which complements the monitoring of mutual investments in the countries of the CIS, another project under way since 2011. The research covers direct investments made by Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Azerbaijan, Tajikistan, and Ukraine in all countries of Eurasia outside the CIS and Georgia, and including Egypt. The authors also review reciprocal direct investments made by Austria, the Netherlands, Serbia, Turkey, Egypt, Saudi Arabia, the UAE, Israel, Iran, India, Singapore, Vietnam, Mongolia, China, South Korea, and Japan in the eight CIS countries listed above. Based on statistical data collected in the course of the monitoring exercise, the authors provide detailed information on the evolution, actual geographical localization, and sectoral makeup of the capital investments under review.

An electronic version of the report is available on the Eurasian Development Bank's website at: <https://eabr.org/en/analytics/integration-research/cii-reports/>.