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EDB Monitoring of Mutual Investments

Reports and Working Papers 21/4



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21/4



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The report continues the series of publications detailing the findings of a long-standing research project dedicated to monitoring of mutual direct investments of the CIS countries and Georgia. The analysis relies on a database maintained on the basis of diverse data obtained from publicly available sources. The database is generated “from the bottom up”, meaning that its main sources are corporate statements and other primary information. The project makes it possible to take into consideration investments made through offshore structures and other “trans-shipping destinations”, as well as reinvested foreign profits. The report contains detailed information on the scope, development, geographical, and sectoral structure of mutual investments of the CIS countries and Georgia in 2016–2020. Special attention is paid to a review of mutual direct investments by companies from the Eurasian Economic Union member states, with special emphasis on their dual role as exporters of capital and as recipients of direct investments by companies from other post-Soviet states.

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




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

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LIST OF ABBREVIATIONS

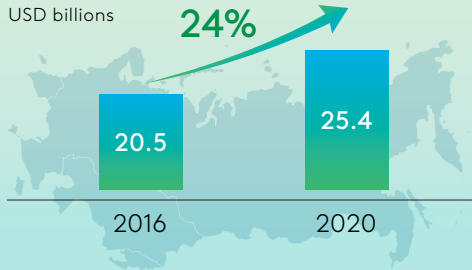
CBR	Central Bank of the Russian Federation (Bank of Russia)	p.p.	percentage point
CHP	combined heat and power plant	RES	renewable energy sources
CIS	Commonwealth of Independent States	SOCAR	State Oil Company of Azerbaijan Republic
COVID-19	Coronavirus disease 2019	TNC	transnational corporation (company)
EAEU, Union	Eurasian Economic Union	UN	United Nations Organisation
EDB, Bank	Eurasian Development Bank	UNCTAD	United Nations Conference on Trade and Development
EDB MMI	Eurasian Development Bank project on monitoring mutual direct investments of the CIS countries and Georgia (in 2012–2017, the project was named “MIM CIS”)		
EEC	Eurasian Economic Commission		
EU	European Union		
FDI	foreign direct investment		
HPP	hydro power plant		
IMF	International Monetary Fund		
INION RAN	Institute of Scientific Information for Social Sciences of the Russian Academy of Sciences		
OECD	Organisation for Economic Cooperation and Development		
OKVED	All-Russian Classification of Types of Economic Activity		



EDB Monitoring of Mutual Investments

Detailed information on the scope, development, geographical and sectoral structure of mutual direct investments of the CIS member states and Georgia

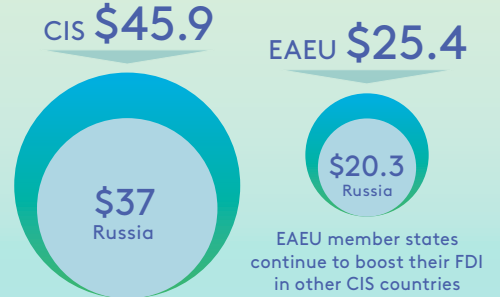
Mutual FDI stock of the EAEU member states



Share of national private companies: **55%**

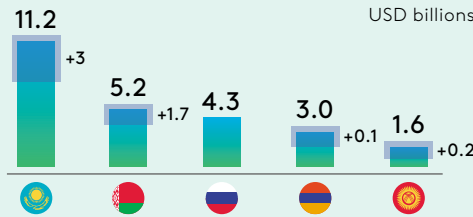
Share of Russian FDI in the CIS and the EAEU: **80%**;
Russia is the **only country with a positive net balance of outward FDI**

Mutual FDI stock in 2020, USD billions

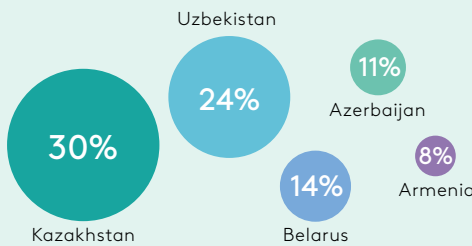


FDI RECIPIENT COUNTRIES

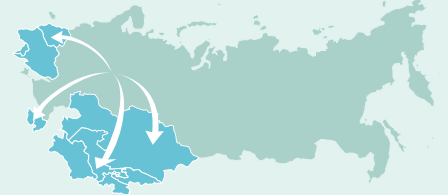
Inward FDI stock originating from the EAEU member states in 2020 and its increase vs. 2016



Key recipients of Russian FDI in 2020

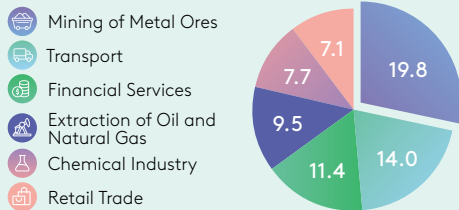


Over the last four years, Russian **outward** FDI stock in the CIS countries and the EAEU member states has increased **by 1.3 times**, Russian **outward** FDI stock in **Uzbekistan by 2.1 times**

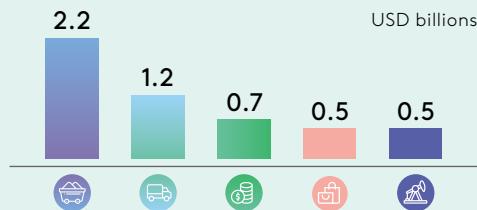


RECIPIENT SECTORS OF MUTUAL FDI OF THE EAEU MEMBER COUNTRIES

Sectoral structure of mutual EAEU FDI stock, 2020, % (main sectors)



Sectors acting as growth drivers, increase vs. 2016



Over the last three years, mutual FDI stock of the EAEU member states and Uzbekistan in **Manufacture of Motor Vehicles, Machines and Electrical Equipment** has doubled



INVESTORS IN THE EAEU MEMBER STATES

Seven companies account for **45% of total mutual FDI in the EAEU** with a combined stock of more than USD 1 billion

Over the last four years, the number of projects with values of **up to USD 5 million has increased by 11%**, with FDI increased **by 16%**

Projects with values of up to **USD 300 million** account for **90%** of all projects, and cover **38 sectors** of the mutual FDI of the EAEU member countries

MEDIUM-TERM EXPECTATIONS

Diversification of the sectoral structure of mutual FDI of the EAEU member states:
Manufacture of Motor Vehicles, Machines, Electrical Equipment, Renewable Energy Sources

Acceleration of the growth of mutual FDI of the EAEU member states and Uzbekistan in the following sectors:
Chemical Industry, Extraction of Oil and Natural Gas, Telecommunications, Manufacture of Machines and Equipment

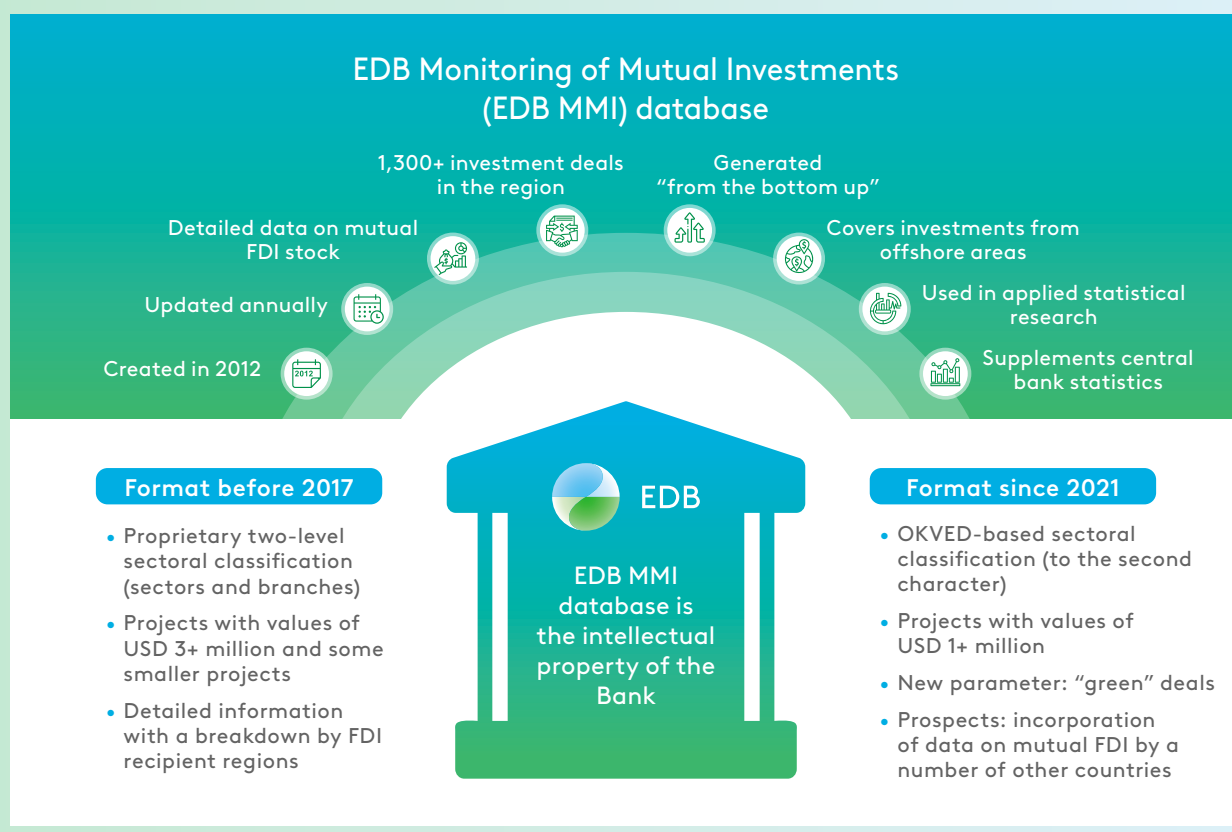
Increased number and value of FDI in greenfield projects and medium-sized business projects

SUMMARY

The EDB Monitoring of Mutual Investments (EDB MMI) database is an ongoing project of the EDB Centre for Integration Studies. The database contains detailed information on mutual FDI stock related to projects implemented by investors from the CIS countries and Georgia.

The monitoring has been conducted since 2012 on the basis of diverse data obtained from publicly available sources. Therefore, the database is generated “from the bottom up”, with its creators relying on corporate statements and other primary information. As a result, the EDB MMI makes it possible to take into consideration such factors as investments made through offshore structures and other “trans-shipping destinations”. In this respect, the project’s database is different from official statistics. The EDB MMI features data that are critical for successful, comprehensive analyses of investment projects: investor country, recipient sector, investor company, FDI recipient region, recipient facility, nature of investment (e.g., greenfield project or acquisition), project commencement year (for completed investments, project implementation period), FDI year-end value in 2008–2020, and sources of information.

The applied nature of the database makes it relevant both for researchers and for government bodies of the EDB member states which seek to obtain supplementary direct investment information and analyses. The EDB MMI is a valuable complement to official statistics on direct capital investments in the CIS countries.



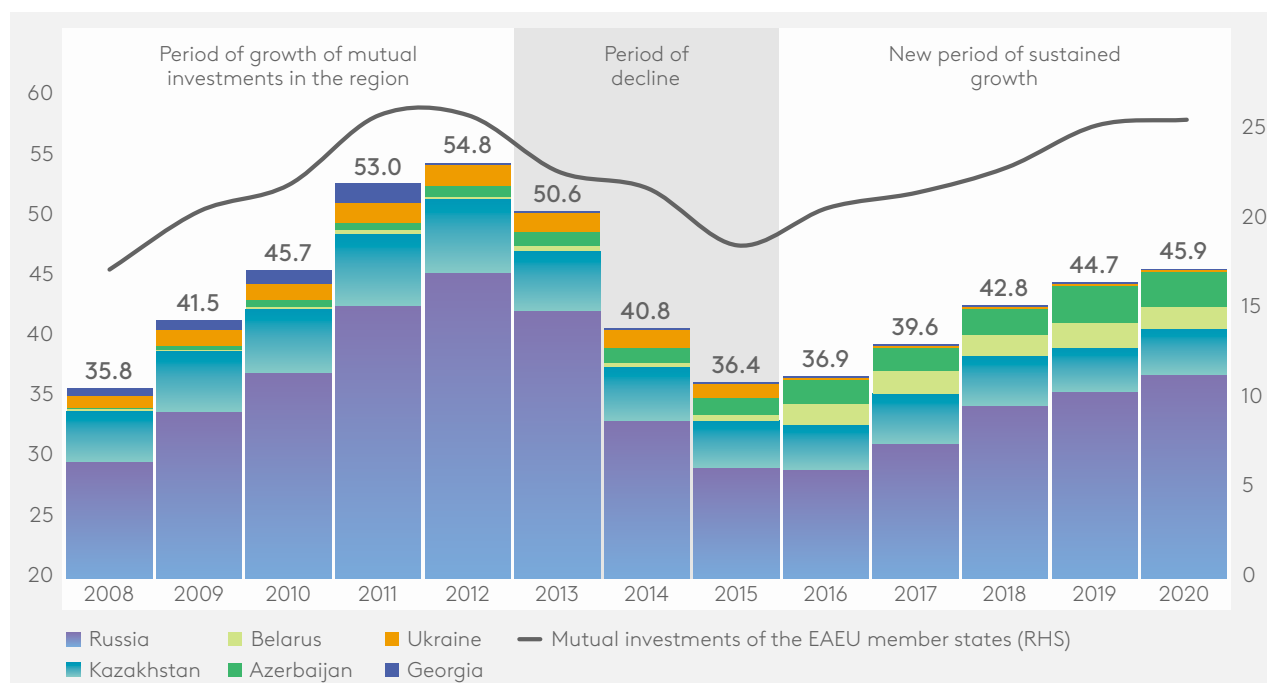
The EAEU is the nucleus of investment interaction in the post-Soviet area¹. The deepening of Eurasian integration is facilitated by the growth of mutual FDI volumes. Looking over the last ten years, we observe a decline in the mutual direct investment stock in 2013–2015. Companies from the EAEU member states reversed the trajectory of mutual FDI of the CIS countries in 2017. Due to investment activity of the Eurasian corporate sector in 2016–2020, the total value of mutual CIS FDI increased by 25% to USD 45.9 billion (see Figure A).

Corporate interrelations within the EAEU are more intensive than those within the CIS. At the end of 2020, the share of mutual FDI stock of EAEU member states in total mutual CIS FDI amounted to 55%.

Mutual FDI in the EAEU: growth by 24% over the last four years. By 2020, the mutual investment stock of the EAEU member states reached USD 25.4 billion. Kazakhstan boasts the highest FDI stock value and growth rate among the EAEU member states: USD 11.2 billion at the end of 2020, and an increase of USD 3 billion over four years.

Investment ties between the EAEU member states and other CIS countries remain strong. At the end of 2020, the relevant FDI stock stood at USD 18.0 billion (39% of total FDI of the CIS countries). Most projects are concentrated in Trade (both Wholesale Trade and Retail Trade), as well as in Financial Services, Real Estate, and Machine Engineering. The most capital-intensive projects were in Extraction of Oil and Natural Gas and Chemical Industry.

Figure A. Changes in Mutual Direct Investment Stock of the CIS Countries and the EAEU Member States, USD billions



Note: Inward mutual FDI stock originating from other countries is insignificant and included in total FDI stock.

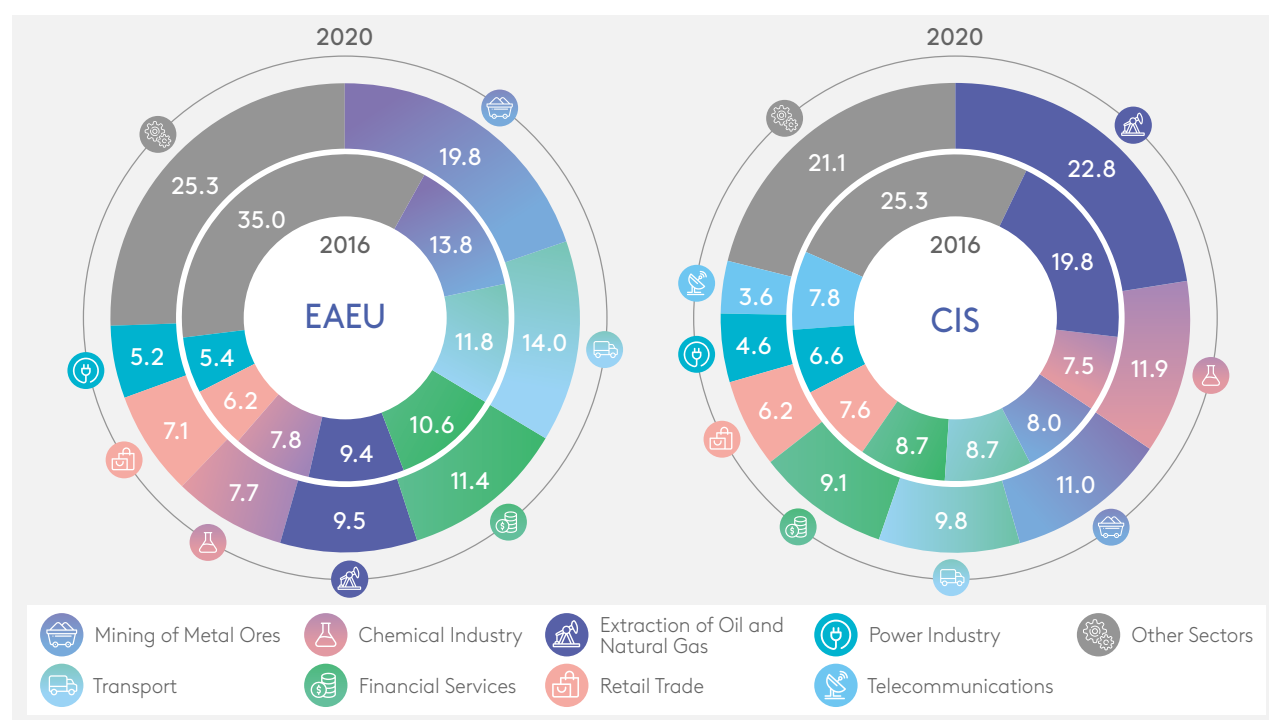
¹ In this report, the post-Soviet area includes the CIS countries and Georgia, excluding the Baltic states (“CIS countries”).

The growth of mutual FDI in the EAEU is qualitative. Investors are increasingly interested in knowledge-intensive production, greenfield projects, and low capital-intensity projects. This promotes modernisation and diversification of the economies of the EAEU member states.

At the end of 2020, the highest mutual FDI stock values in the CIS were reported for Extraction of Oil and Natural Gas (22.8% of total FDI stock), Chemical Industry (11.9%), and Mining of Metal Ores (11.0%) (see Figure B). The predominance of projects in Extraction of Oil and Natural Gas can be attributed to the Russian projects in Uzbekistan and Azerbaijan.

The sectoral structures of mutual FDI of the EAEU member states and the CIS countries are different. In the EAEU, the leading sector is Mining of Metal Ores (19.8%), followed by Land Transport and Transport via Pipelines (14%) and Financial Services (11.4%) (see Figure B). In the sectoral structure of mutual FDI in the EAEU, Extraction of Oil and Natural Gas takes only fourth place (9.5%). The leadership of Mining of Metal Ores is secured by the projects implemented by Russia and Kazakhstan. That sector made the largest contribution to the increase of mutual FDI stock of the EAEU member states over the last four years (USD 2.2 billion).

Figure B. Sectoral Structure of Mutual FDI Stock in the EAEU Member States and the CIS Countries in 2016 and 2020, %



A new trend is emerging — growth of mutual FDI of the EAEU member states in Manufacture of Motor Vehicles, Machines, and Electrical Equipment. Over the last three years, the value of such FDI stock increased by a factor of 1.6. However, it remains rather modest.

Private national investors hold a dominant share in the ownership structure of companies investing within the EAEU (55% at the end of 2020). The share of investor companies controlled by the state (with equity participations in excess of 50%) has changed little since

2016, and in 2020 stood at 36%. Half of those companies are fully controlled by the state. The number of projects where investor companies are co-owned by foreign TNCs has decreased over the last five years from 10% to 6%.

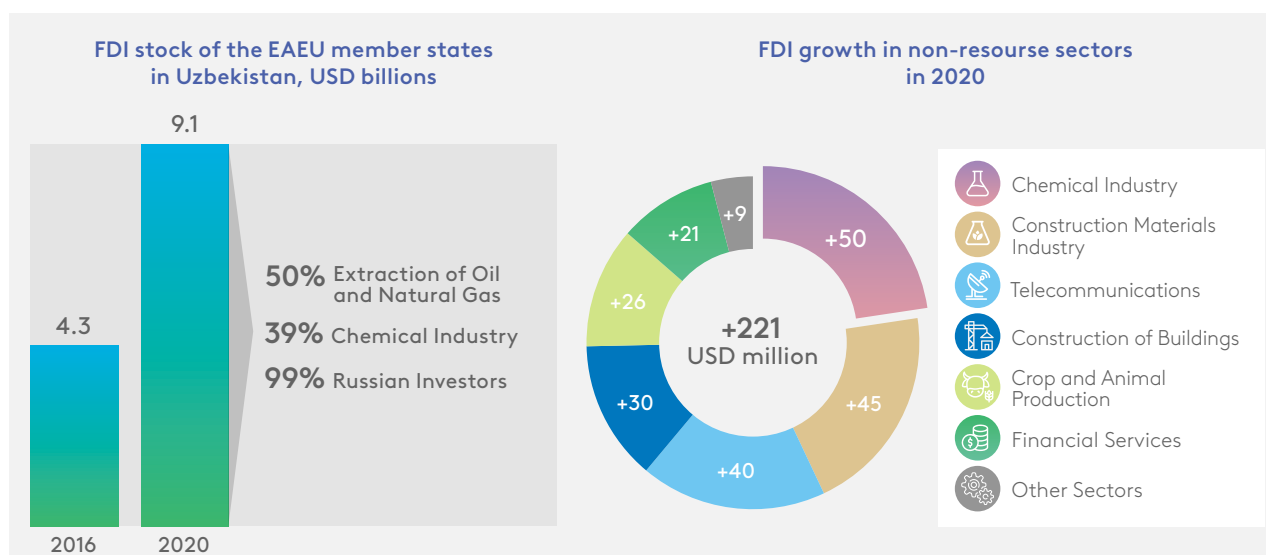
Eurasian investors display more interest in greenfield EAEU projects than in acquisition of equity participation. Over the last four years, such FDI stock has increased by a factor of 1.6, with annual growth rates in excess of 10%.

The seven largest Eurasian investor companies account for more than USD 11.3 billion of total capital investment stock accumulated in the EAEU by the end of 2020. Their share stands at 45% of mutual FDI of the EAEU member states, having increased by 4 p.p. over the last four years. Many leading TNCs, including the Russian oil and gas companies LUKOIL and Gazprom, are present in multiple sectors.

Russia is the only net exporter of mutual FDI stock in the post-Soviet area. At the end of 2020, Russian investors accounted for 80% of total outward FDI in both the EAEU member states and the CIS countries. Russia's key investment partner is Kazakhstan, with 30% of total Russian outward FDI in the CIS countries.

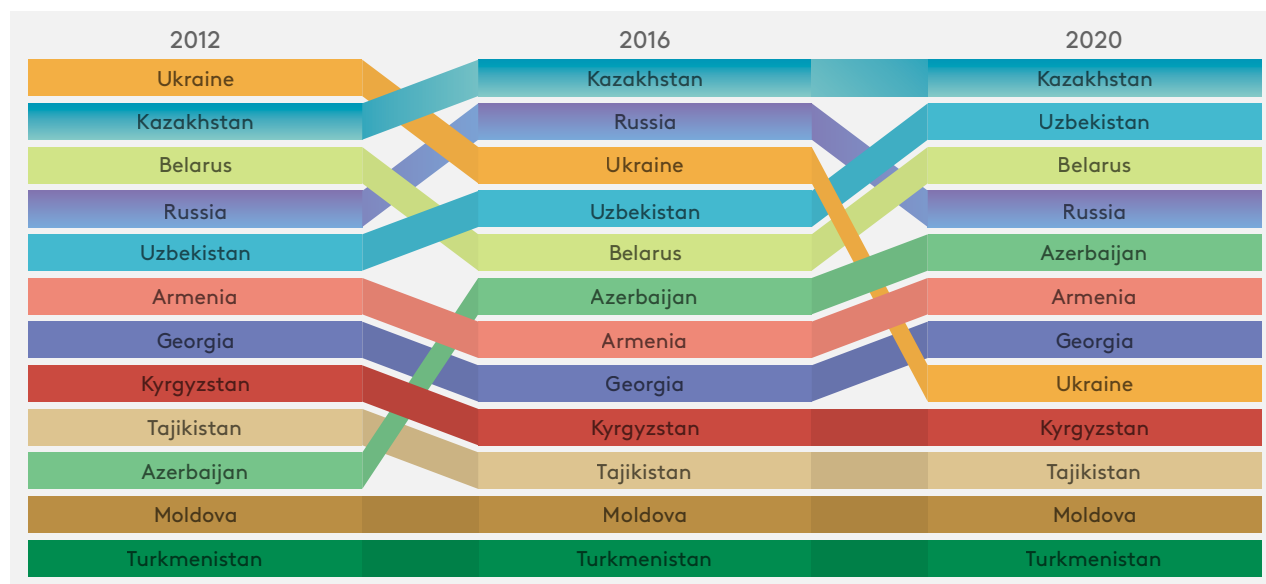
Russian investors are building up capital investments in the CIS countries, primarily in Uzbekistan and Azerbaijan, having drastically curtailed their investment activity in Ukraine. Over the last four years, Russian FDI in Uzbekistan and Azerbaijan has increased by a factor of 2.1 and 1.2, respectively. Uzbekistan has received 99% of all its post-Soviet FDI from Russia (USD 9 billion) (see [Figure C](#)), and Azerbaijan has received 99.3%, or USD 4.2 billion.

Figure C. Inward FDI in Uzbekistan Originating from the EAEU Member States



There have been significant changes in the rating of the mutual CIS FDI recipient countries. Kazakhstan steadily tops the list of FDI recipients. Uzbekistan has firmly established itself in second position in recent years. Russia has dropped down by two notches, with Azerbaijan, now in the fifth position, coming up close. Ukraine has shifted from its first place rating in 2012 to the eighth place at the end of 2020 (see [Figure D](#)).

Figure D. Changes in the Rating of the Principal Recipients of Mutual Direct Investments Originating from the CIS Countries



If Russia is taken out of the equation, EAEU investment pairs currently look rather unimpressive, with only Kazakhstan's FDI in Kyrgyzstan standing out. The "neighbourhood effect" continues to play the key role in Central Asian countries.

What is our view of the direction in which investment flows may evolve over the medium term?

- In the next several years, the structure of investment flows will be determined by integration developments in the region, and by the deepening of bilateral relations between the countries.
- The sectoral structure of mutual FDI stock will gradually become more and more diversified due to the expansion of Retail Trade, Financial Services, Manufacture of Motor Vehicles, Machines, and Electrical Equipment.
- With the global environmental agenda gaining importance, there will be a surge in mutual FDI in the "green" economy. Over the last two years, mutual FDI stock in such projects has increased by 56%. Kazakhstan will reinforce its leadership in attracting foreign direct investments in renewable energy sources.
- The number of greenfield projects will continue to grow at a rapidly expanding rate. Investors are increasingly interested in expanding into new markets with their technologies and resources. That process will be accompanied by transfer of technologies and modernisation of the FDI recipient countries.
- Active growth will be posted by small projects (with investments ranging from USD 1 million to USD 5 million) covering a broad range of sectors. That process will be facilitated by national export encouragement programmes, development of digital technologies, and integration of national markets.
- Uzbekistan will become one of the largest recipients of FDI not only from Russia, but also from other EAEU member states. It is also possible that investor companies from Uzbekistan will step up their activity in Russia and in the adjoining Central Asian countries.

INTRODUCTION

Movement towards a polycentric world is a distinct globalisation trend. Still, that polycentric world will inevitably remain hierarchical. The centre-periphery system will continue to be transformed, and economic centres will reinforce their positions. Only countries with a gigantic potential (such as China) can on their own be nuclei of the world economy. For most countries, even large ones, the only viable strategy is to take part in the development of competitive regional integration projects.

In terms of expansion of integration, the post-Soviet countries have, from the start, been in a more favourable situation than many of their global competitors. First, many former Soviet republics have a common history (of mostly positive interactions), linguistic and cultural affinity, similar business models (due to the similarity of their political trajectories, among other things), and numerous shared infrastructure elements (largely because of their geographical proximity). Second, the CIS countries find themselves in a relatively comfortable position from the geopolitical perspective (although that potential can be easily lost). However, these are merely prerequisites which can – and should – be propped up by foreign policy efforts (the positive momentum generated by the five EAEU member states exemplifies the benefit of such efforts in the eyes of ordinary people). Most importantly, it is necessary to encourage development of “integration from the bottom up”. International business cooperation is a pivotal element of such integration and, as is well known, FDI is a key component of corporate integration.

Until the late 1990s, national governments in the post-Soviet area paid insufficient attention to FDI. Only gradually did they fully appreciate the importance of direct investments, which are not only more sustainable than other cross-border investment flows, but also involve transfer of technologies, construction of competitive value chains, and introduction of efficient governance solutions. The pace of improvement of FDI statistics was equally slow. Suffice it to say that Russia (where an official FDI registration system – a reasonably good one by international standards – has been in existence for about twenty years) achieved a relatively acceptable level of detail of its FDI records only in the middle of the 2010s, when responsibility for statistical accounting in that area was reassigned from Rosstat (the Federal State Statistics Service of the Russian Federation) to the CBR. Even so, neither the CBR nor its counterparts in the other post-Soviet countries have yet to implement systems designed to track FDI geography in a way that reflects the movement of capital through offshore areas and other “transshipping destinations” in line with (non-binding) OECD and IMF recommendations, instead of just listing investor countries and direct recipients. Such capital flows play an extremely large role in the post-Soviet area, and the EDB MMI project, created specifically to fill in those information lacunae, has become an essential supplementary tool that can be used to analyse mutual FDI and, more generally, corporate integration in Eurasia.

In 2012–2017, the EDB implemented a series of projects to monitor mutual direct investments in 12 post-Soviet countries (all the former Soviet republics excluding the Baltic states, and including Georgia, which had left the CIS). In the last several years, special attention was paid to mutual direct investments within the EAEU.

Reports featuring the key findings of the monitoring project were published in the Russian and English languages on an annual basis. The mutual investment database was regularly updated,

and contained consolidated information on year-end FDI stock for the period from 2008 to 2016 featuring more than 1,300 projects. By the end of 2016, some of those projects had already been completed; in other words, the database included enterprises that had been sold in 2009–2016 to national or non-CIS foreign investors. The database was particularly valuable because it recorded individual projects with reference to their actual locations, for example, Russian foreign direct investment made in Ukraine via Cyprus were classified as Russian FDI rather than as Cyprus FDI (the latter being typical for most official statistical publications).

Inasmuch as the database contained detailed information on investor companies, sectoral affiliation of investment projects, and regional localisation of FDI in large and medium-sized CIS countries, the EDB MMI was capable of providing in-depth analyses of the structure of mutual direct investments, making it possible to get a clear idea of the scale of corporate integration in the post-Soviet area. As a result, when assessing mutual direct investments, the heads of the EAEU member states cited the EDB MMI instead of the official statistical reports published by their central (national) banks. In 2014–2017, the EDB MMI project was expanded to incorporate data collected in the course of monitoring the reciprocal FDI flows between EAEU member states, Azerbaijan, and Ukraine on the one hand, and the leading Asian states, as well as Serbia, the Netherlands, and Austria on the other (Kuznetsov, Volodin et al., 2017).

In 2021, the EDB resumed the monitoring of mutual direct investments of 12 post-Soviet countries. It generally continued to use the monitoring methodology employed in 2012–2017, with a number of adjustments (see below).

The high quality of the database can be attributed to the fact that our experts repeatedly re-examine the newsfeeds they use for monitoring purposes, and occasionally review their previous conclusions. The financial statements of many small companies are often unavailable (especially where investments are channelled through offshore areas), and we firmly believe that we must track down the ultimate beneficiaries. There is also the problem of erroneous data disseminated by the media (and later propagated by many respectable FDI databases).

1. MUTUAL DIRECT INVESTMENTS IN THE CIS AT THE END OF 2020

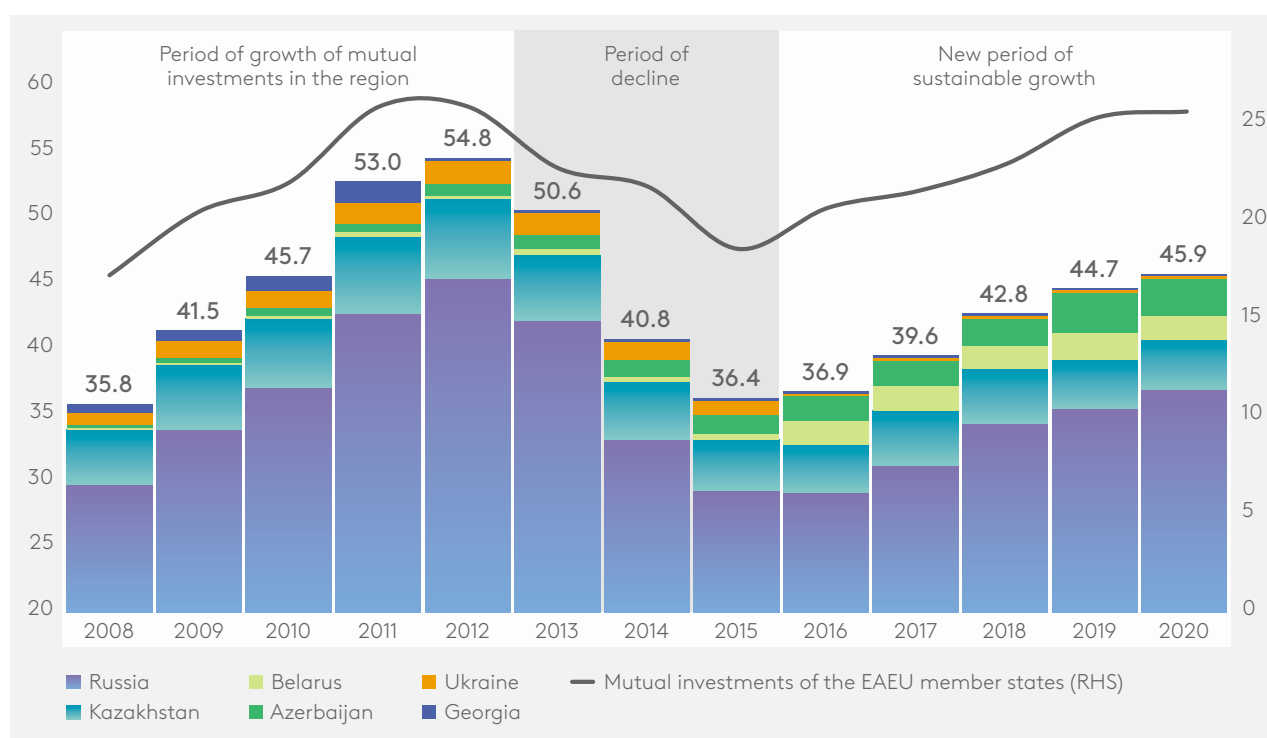
1.1. STRENGTHENING OF CORPORATE TIES IN THE CIS AND NEW PERIOD OF MUTUAL FDI GROWTH

Currently the database contains records for 555 projects for the period from 2016 to 2020, including 322 projects implemented by Russian investors. No significant foreign direct investments originating from Turkmenistan have been identified, while Tajikistan and Kyrgyzstan are represented by one project each, both in the Trade sector (including operations with real estate). A little more than half of all projects (286) were implemented within the EAEU. Another 231 deals are linked to investment flows between an EAEU member state and another post-Soviet country which is not a member of the Union. Only 38 projects (7% of the total) are related to mutual investments by non-EAEU countries. It should be noted that 100 projects (18%) had zero FDI stock at the end of 2020. Many of those had been terminated or sold to other investors. Also, eight projects are included in the database as “prospects”, as they received their first significant FDI only in 2021. Moreover, 26 new projects were launched in 2020 despite the crisis caused by the COVID-19 pandemic – only slightly fewer than in 2019 (36 projects), and even more than in 2018 (24 projects).

Even with the selloff of Russian assets in Ukraine, mutual investments in the post-Soviet area are growing at a steady pace. While at the end of 2016, total FDI stock amounted to merely USD 36.9 billion, at the end of 2020 it reached USD 45.9 billion. We should emphasise that, because of the differences in the methodology used to measure FDI in Belarus and the impossibility of making an accurate assessment of the rapidly devaluing Ukrainian assets, an overstated 2016 year-end estimate was given four years ago.

We come to the conclusion that a dramatic turnaround occurred in 2017 in the movement of mutual FDI stock in the CIS countries. After a steady decline in 2013–2015 (from USD 55 billion at the end of 2012 to USD 36.5 billion at the end of 2015), followed by modest growth in 2016, in 2017 that indicator increased by USD 2.7 billion, or 7.3%, relative to the previous year. All in all, in 2016–2020 total mutual FDI stock of the 12 post-Soviet countries under review increased by 24.6%, with some growth reported every year. It should be noted, however, that the all-time high recorded levels in the CIS in 2011–2012 remain unsurpassed (see [Figure 1](#)).

Figure 1. Changes in Mutual Direct Investment Stock of the CIS Countries and the EAEU Member States, USD billions



Note: Inward mutual FDI stock originating from other countries is insignificant and included in total FDI stock.

Source: EDB MMI.

The EAEU is the nucleus of investment interaction in the post-Soviet area. Companies from the EAEU member states reversed the trajectory of mutual CIS FDI stock in 2017.

The growth of mutual FDI stock within the EAEU is progressing at a steady rate – from USD 20.5 billion at the end of 2016 to USD 25.4 billion at the end of 2020. The share of the EAEU investment pairs remains stable at about 55% of total mutual FDI stock of the 12 post-Soviet countries under review. The predominance of mutual FDI of the EAEU member states underscores the benefits of EAEU membership.

The steady progress of mutual FDI in 2016–2020 is attributable to the following key drivers:

(1) the ongoing build-up by the EAEU of a positive track record of functioning as a new integration project that several post-Soviet countries, in addition to the Union's current five members, find economically appealing (in essence, direct investors are now convinced that the EAEU is "here to stay");

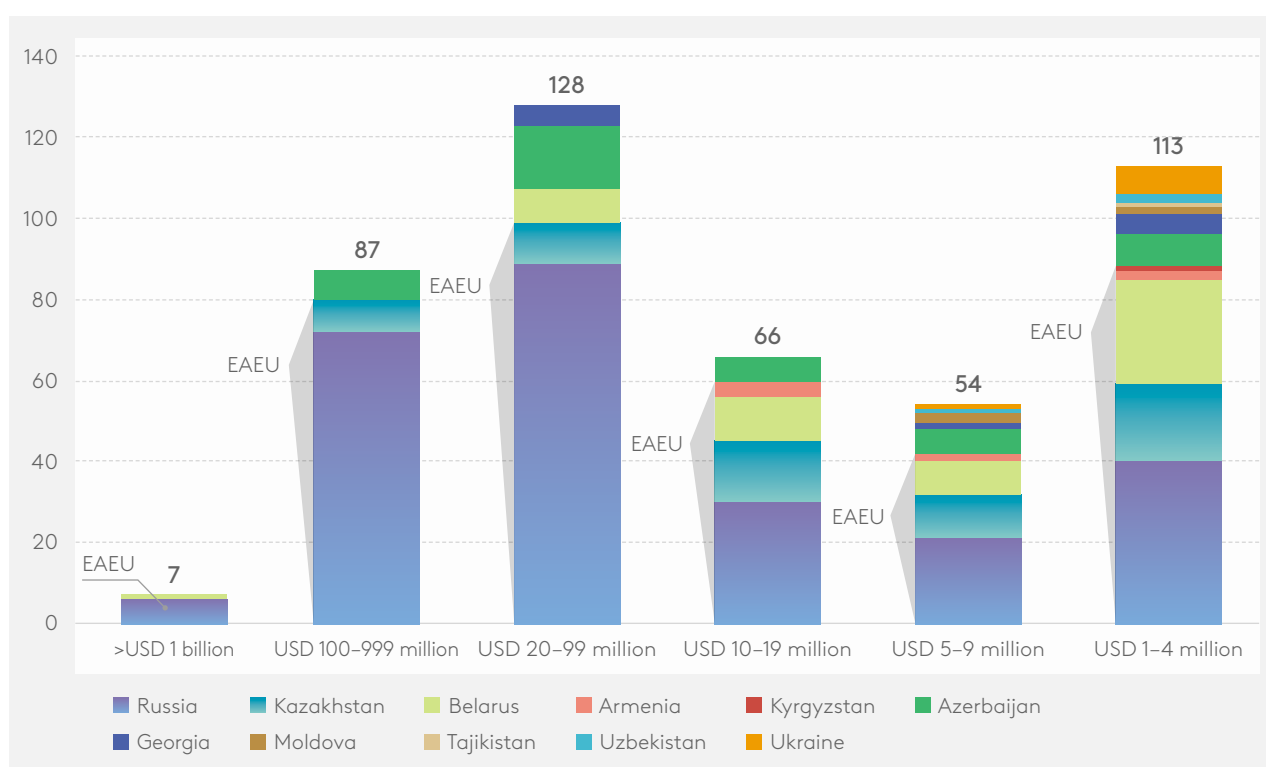
(2) reassessment by a number of large companies of their geographical priorities in connection with the "war of sanctions" that broke out after 2014 between Russia and the western countries (in 2014–2016, some TNCs were biding their time, hoping that the confrontation between the former partners would soon be over);

(3) continued internationalisation of post-Soviet business as an objective globalisation trend, even though “newcomers” often choose neighbouring countries as their first FDI targets.

The database contains records on seven deals with FDI stock in excess of USD 1 billion, including six Russian projects and only one Belarusian project. In 87 projects, FDI stock ranges from USD 100 million to USD 999 million. That category is still dominated by Russian investors, but there are also quite a few projects with FDI originating from Kazakhstan and Azerbaijan (see Figure 2).

Deals with values under USD 300 million account for 90% of all projects. Because of their modest capital intensity, their share in total FDI stock stands at about 40%. The bulk of mutual investment projects with the participation of CIS investors have values below USD 5 million.

Figure 2. Distribution of EDB MMI Projects by FDI Stock at the End of 2020



Source: EDB MMI.

1.2. COUNTRY STRUCTURE OF MUTUAL FDI OF THE CIS COUNTRIES: CONTRIBUTION BY THE EAEU AND RUSSIA

At the end of 2020, Russia accounted for more than 80% of total outward mutual FDI stock reported both by 12 post-Soviet countries and the five EAEU member states. Over the last four years, Russia’s share in total FDI stock in the post-Soviet area increased by 2 p.p.

Table 1. Changes in Direct Investments of the Post-Soviet Countries in the CIS and the EAEU

Investor Country	FDI Recipient	Year-End FDI Stock, USD millions				
		2016	2017	2018	2019	2020
All Database	All 12 Countries	36,853	39,557	42,775	44,704	45,918
Russia	Kazakhstan	8,217	8,132	9,374	10,535	11,175
	Belarus	3,491	3,941	4,142	5,206	5,143
	<i>All EAEU Member States</i>	<i>15,428</i>	<i>15,889</i>	<i>17,257</i>	<i>19,752</i>	<i>20,311</i>
	Uzbekistan	4,269	6,625	7,760	7,839	8,950
	Azerbaijan	3,379	3,749	4,038	4,167	4,221
	All 12 Countries	29,061	31,274	34,397	35,487	36,983
Kazakhstan	Belarus	23	23	22	27	24
	Russia	2,748	2,962	3,041	2,638	2,813
	<i>All EAEU Member States</i>	<i>3,355</i>	<i>3,618</i>	<i>3,729</i>	<i>3,290</i>	<i>3,455</i>
	Uzbekistan	6	3	15	33	85
	Azerbaijan	7	7	7	7	8
	All 12 Countries	3,840	4,083	4,181	3,724	3,921
Azerbaijan	Kazakhstan	71	81	99	74	74
	Belarus	81	93	118	121	121
	Russia	235	225	211	276	264
	<i>All EAEU Member States</i>	<i>387</i>	<i>399</i>	<i>428</i>	<i>471</i>	<i>459</i>
	Uzbekistan	0	0	1	1	1
	All 12 Countries	1,923	1,967	2,052	2,967	2,904
Belarus	<i>All EAEU Member States</i>	<i>1,649</i>	<i>1,782</i>	<i>1,704</i>	<i>1,984</i>	<i>1,549</i>
	All 12 Countries	1,744	1,940	1,846	2,153	1,729
Georgia	<i>All EAEU Member States</i>	<i>102</i>	<i>105</i>	<i>105</i>	<i>170</i>	<i>230</i>
	All 12 Countries	111	117	119	194	269
Armenia	<i>All EAEU Member States</i>	<i>19</i>	<i>19</i>	<i>19</i>	<i>19</i>	<i>41</i>
	All 12 Countries	43	44	44	48	70
Ukraine	<i>All EAEU Member States</i>	<i>67</i>	<i>68</i>	<i>69</i>	<i>69</i>	<i>4</i>
	All 12 Countries	115	116	120	123	16
Moldova	<i>All EAEU Member States</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
	All 12 Countries	11	11	11	11	13
Uzbekistan	<i>All EAEU Member States</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>6</i>	<i>5</i>
	All 12 Countries	5	5	5	7	10
Kyrgyzstan	<i>All EAEU Member States</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>2</i>
	All 12 Countries	0	0	0	0	2
Tajikistan	All 12 Countries	0	0	0	0	1

Source: EDB MMI.

Within the CIS, the share of EAEU partners in Russia's total FDI stock increased from 51% in 2017 to about 55% in 2019–2020 (see [Table 1](#)). Russian companies are also building up their direct investments outside the EAEU, primarily in Uzbekistan, but also in Azerbaijan and some other countries.

In other words, the main structural changes are associated with the exodus of Russian investors from Ukraine. While at the end of 2016 there were 59 deals with Russian FDI stock in Ukraine that had values in excess of USD 1 million, only 22 projects remained four years later. The main players are the state-controlled Sberbank, the private Alfa-Bank investing through Cyprus, and RUSAL which successfully defended its rights to the Nikolayev alumina refinery. We note in passing that some oligarchs of Ukrainian origin with Russian citizenship who control their assets in Ukraine via third-country companies preferred to become full-fledged Ukrainian businessmen during these years. Their investments are no longer recorded in the EDB MMI as foreign investments.

Kazakhstan is the second largest source of FDI in the CIS. For Kazakhstan's investors, EAEU partners play an even more significant role than for Russian investors — 88% of Kazakhstan's FDI stock is in post-Soviet countries. Only in Belarus is this indicator slightly higher (although Kyrgyzstan's only sizeable investment project is also located in the EAEU).

Conversely, at the end of 2021, Armenia's direct investment projects in the EAEU accounted for less than 60% of its total FDI stock in post-Soviet countries. In this case, however, the "neighbourhood effect" comes into play, with Georgia getting 36%. Even though Georgia is still regarded as a significant FDI recipient by TNCs from both Russia and Kazakhstan, its share in mutual FDI stock originating from those countries stands at merely 2.7% and 7.6%, respectively.

Investment ties between the EAEU member states and other CIS countries remain strong. At the end of 2020, such FDI stock stood at USD 18 billion (39% of total FDI stock of CIS countries). Naturally, the contribution of Russian FDI to those mutual ties remains crucial, but such ties are also expanding among all CIS economies. Thus, in 2016–2020 mutual FDI stock of other EAEU member states and CIS countries excluding Russia increased by 29%, which exceeds the average growth rate in the region.

Outside of the EAEU, investors from Azerbaijan have displayed the most activity in recent years. Notably, the share of EAEU member states in Azerbaijan's FDI stock in the region is below 16%, having decreased by 4 p.p. over the last several years, even though its capital investments in Belarus and FDI in Russia rose by 50% and 12%, respectively. That is because of a single deal: the private Russian telecommunication company MTS failed to overcome the barriers its business had encountered in Ukraine (even under the Vodafone brand), and in 2019 it sold all its Ukrainian assets for USD 734 million to the Azerbaijani operator Bakcell, for which that deal heralded the start of a rapid internationalisation journey.

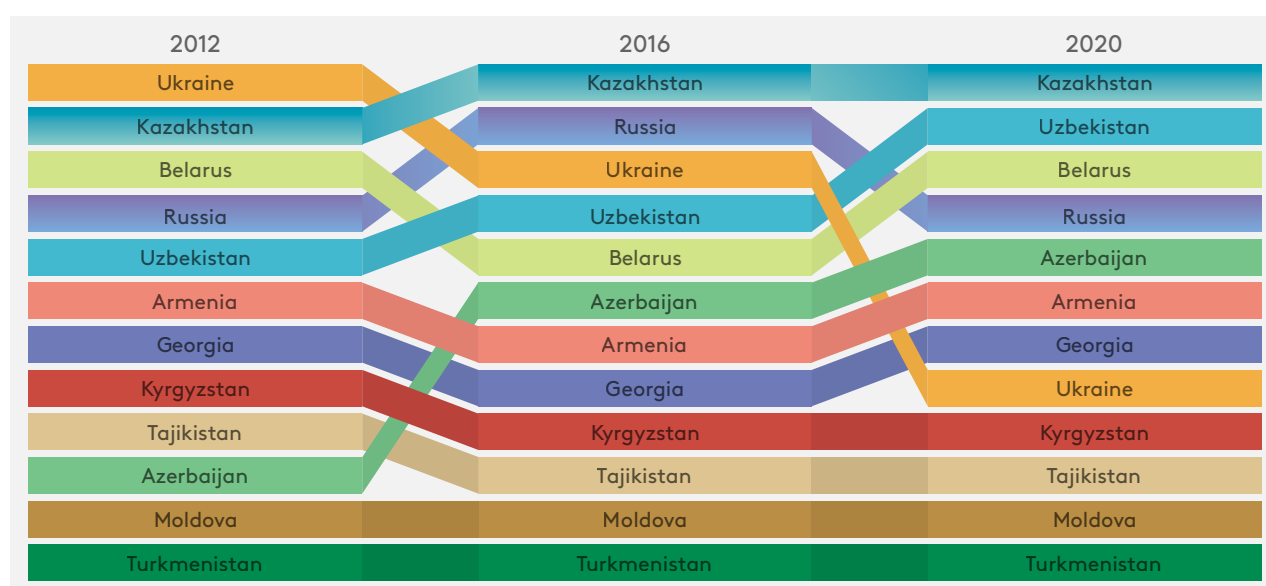
Ukraine itself has ceased to be a significant source of FDI for CIS countries. It was outstripped even by small Georgia, which funnelled 86% of its direct investments to the EAEU member states, mostly to Kazakhstan and Armenia, but also to Belarus.

Kazakhstan steadily tops the list of recipients of FDI from post-Soviet countries. At the end of 2020, FDI stock in Kazakhstan amounted to USD 11.4 billion, having increased by USD 3.1 billion over four years (FDI stock from the EAEU member states amounted to USD 11.2 billion).

Uzbekistan has firmly established itself in second position in recent years. In 2020, Russia dropped a little, with Azerbaijan, now in the fifth position, coming up close (see Figure 3). Clearly, Russia's relatively modest position can be attributed to the fact that it is Russian TNCs that dominate the mutual FDI stock.

Ukraine remains a more or less significant FDI recipient. Some Russian assets were sold to investors from other CIS countries, and many post-Soviet companies continue to operate in Ukraine. Still, while over the last four years aggregate FDI stock from post-Soviet countries in Kazakhstan increased from USD 8.3 billion to USD 11.4 billion and in Uzbekistan from USD 4.3 billion to USD 9.1 billion, in Ukraine it decreased from USD 4.4 billion to USD 2.7 billion. As a result, Georgia caught up with Ukraine, while Armenia outstripped it (even though FDI stock growth in both countries was rather unimpressive at below 5%).

Figure 3. Changes in the Rating of the Principal Recipients of Mutual Direct Investments Originating from the CIS Countries



Source: EDB MMI.

Turkmenistan is still excluded from the flows of mutual FDI from the post-Soviet countries. According to UNCTAD, global FDI stock in the country amounts to USD 39.3 billion (UNCTAD, 2021); however, only two projects (one Belarusian and one Russian) with total FDI slightly in excess of USD 1 million are recorded in the EDB MMI database. EDB MMI does not have a single record of significant direct investments by Turkmenistan in the CIS countries.

Investors from Moldova, Uzbekistan, and Tajikistan apparently prefer to stay away from the post-Soviet area. Accordingly, direct investments from those countries are rather scanty (according to UNCTAD, USD 269 million, USD 196 million, and USD 186 million, respectively). The lack of purposeful internationalisation of business in those countries is the root cause of the meagre reciprocal capital flows in the post-Soviet area. Usually, CIS countries attract small investors from Moldova, Uzbekistan or Tajikistan, many of whom manage to obtain the relevant citizenship (e.g., Russian). As for the larger players, their investments are mostly motivated by the desire to "insure" the assets acquired in the course of privatisation, and they are concentrated primarily in those western countries where the provenance of foreign capital draws little attention.

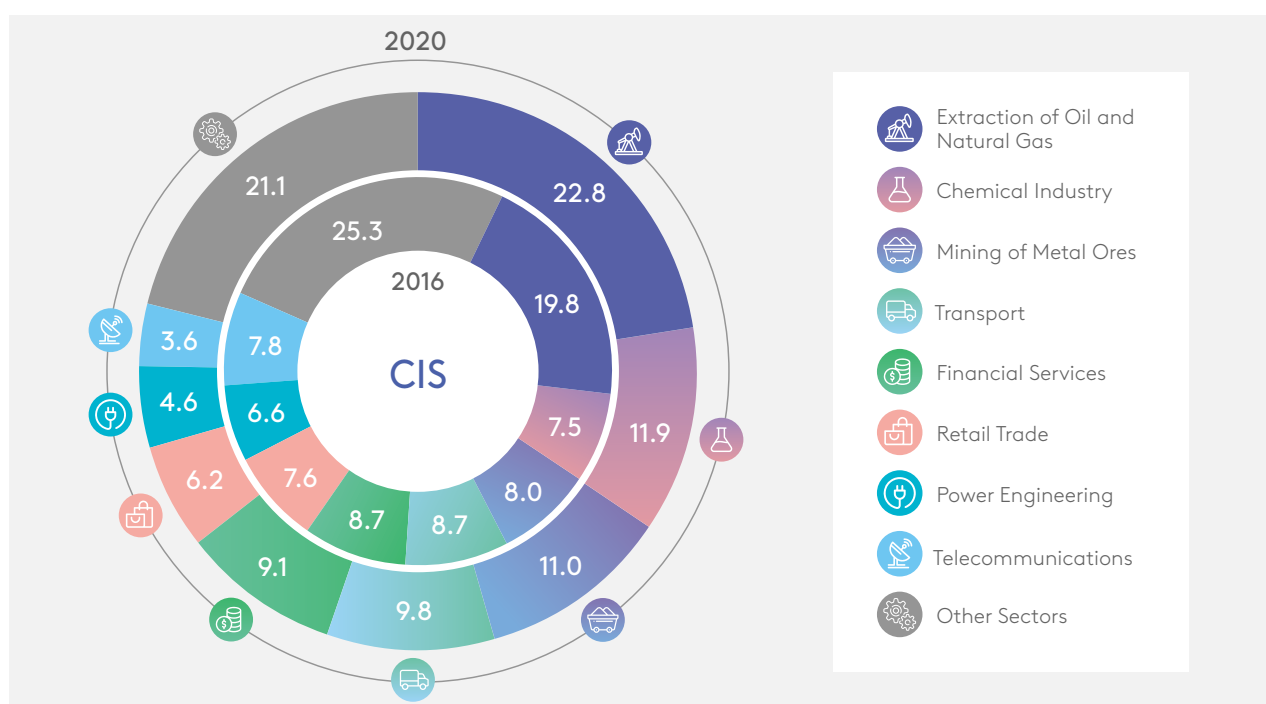
Naturally, EU countries and certain other non-CIS countries present interest for large exporters of capital from Belarus, Kazakhstan, Azerbaijan, or Georgia. However, in this case FDI is often a legitimate supplement to foreign trade relations; accordingly, the EAEU can compete for those investments by deepening regional integration and creating, in Russia for example, a foreign trade environment that will be more appealing to potential economic partners than that in Western Europe.

1.3. SECTORAL STRUCTURE OF MUTUAL FDI OF THE CIS COUNTRIES: EXTRACTION OF OIL AND NATURAL GAS REMAINS A PRIORITY FOR LARGE INVESTORS

Over the last several years, the structure of mutual FDI of post-Soviet countries has sustained not only geographical shifts, but also sectoral shifts (see Figure 4). Extraction of Oil and Natural Gas (OKVED Code 06) maintains its leadership, and its share increased by 3 p.p. to 22.8%. The predominance of projects in Extraction of Oil and Natural Gas can be attributed to the Russian projects in Uzbekistan and Azerbaijan.

Given that oil and gas TNCs also invest in pipelines and certain other assets, their share in total FDI stock in the region exceeds 1/3.

Figure 4. Sectoral Structure of Mutual FDI Stock of the CIS Countries at the End of 2016 and 2020, %



Source: EDB MMI.

Mining of Metal Ores (OKVED Code 07) is the third largest mutual FDI sector, and its share has also significantly increased over the last four years — by almost 3 p.p. to 11%. This type of economic activity includes a number of subsectors that are popular among post-Soviet investors, such as Mining of Non-Ferrous Ores, Uranium Ores, and Gold. Inasmuch as metallurgical companies invest in mining and processing plants as well as smelting plants, their roles in the FDI of CIS countries is even higher.

At the same time, the dominance of commodity assets as recipients of reciprocal FDI flows in the CIS countries cannot be viewed as their only salient feature. For example, the importance of the Chemical Industry (OKVED Code 20) has also increased over the last four years. That sector now accounts for 11.9% of total FDI stock, which places it in the second position. The Russian Omsk Carbon Group has more than quadrupled its capital investments in the carbon black plant built in 2018 in the Mogilev Free Economic Zone in Belarus. Naturally, the Chemical Industry is, at least partially, a commodity sector; a good example of this is Manufacture of Mineral Fertilisers. Another project illustrating the increase of Russian direct investments in Belarus is Slavkali (extraction of potassium and manufacture of potassium fertilisers) financed by M. Gutseriyev (through the SAFMAR Group). A similar example is the growth of FDI of the Russian company EuroChem in the extraction of phosphorite and manufacture of phosphate fertilisers in Karatau (Jambyl Province, Kazakhstan).

In the Services sector, the first position in mutual FDI stock is held by the Banking sector which attracts investors from many countries (particularly Russia and Kazakhstan), with almost all post-Soviet countries being recipients of such FDI (see [Figure 4](#)). Direct investments in the Telecommunications sector remain significant, but their share in the sectoral structure of mutual CIS FDI stock has declined noticeably.

Although mutual FDI covers more than 50 sectors with two-digit OKVED codes, the 20 most important of them account for 96% of total direct investment stock. In particular, Manufacture of Food Products and Beverages and Manufacture of Other Non-Metal Mineral Products (mostly construction materials, such as cement) play an important role in the Manufacturing Industry.

At the end of 2020, all Electrical, Electronic, and Transport Engineering sectors (OKVED Codes 26–30) accounted for only USD 546 million, or 1.2%, of total mutual FDI stock in the CIS. Still, over the last four years, those knowledge-intensive sectors demonstrated an impressive growth rate of 59.6%.

Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations, a technology-intensive sector, still has a negligible share. However, a positive trend has emerged after the recent investment by the Russian R-Pharm in Azerbaijan and a project launched in 2021 by a Russian investor in Kazakhstan.

FDI in the “green” economy is almost non-existent in the post-Soviet area. The EDB MMI database has records of only four renewable energy projects (one of which started in 2021). At the end of 2020, aggregate FDI stock amounted to USD 359 million, mainly represented by two projects: construction of solar power stations by a Russian investor in Kazakhstan, and the Sangtuda HPP built by Russian power engineers in Tajikistan (Russian stake: 75%).

1.4. CORPORATE STRUCTURE OF MUTUAL FDI IN THE CIS COUNTRIES: TREND-SETTING INVESTORS

At the end of 2020, the eight largest investor companies, each with aggregate FDI in the region in excess of USD 1 billion, accounted for more than USD 25 billion of total capital investment stock (see Table 2). Their aggregate share in total FDI stands at 55%. Many leading TNCs, including the Russian oil and gas companies LUKOIL and Gazprom, are present in multiple sectors (according to the OKVED classification).

The largest investors are expanding their capital investments at a high rate, with the total for the eight leaders having increased by 51%, or USD 8.5 billion. As a result, their share in mutual FDI stock of post-Soviet countries increased by more than 10 p.p. Subdued activity of the lesser investors is the main factor shaping the current corporate structure. Ukrainian developments have had only a limited impact on changes in the ratings of the leaders.

Table 2. Largest Post-Soviet Investor Companies Operating in the CIS

Investor Company	Home Country	Sector	2016 Year-End FDI, USD millions	2020 Year-End FDI, USD millions	Leading Recipient Country and Its Share
LUKOIL	Russia	Extraction of Oil and Natural Gas	8,475	14,444	Uzbekistan, 55%
Gazprom	Russia	Land Transport and Transport via Pipelines	2,465	3,010	Belarus, 39%
Atomenergoprom	Russia	Mining of Metal Ores	1,271	1,490	Kazakhstan, 100%
Sberbank	Russia	Provision of Financial Services, Excluding Insurance and Retirement Services	851	1,332	Kazakhstan, 53%
SOCAR	Azerbaijan	Land Transport and Transport via Pipelines	1,166	1,299	Georgia, 77%
KAZ Minerals	Kazakhstan	Mining of Metal Ores	260	1,250	Russia, 72%
Yuras Oil	Belarus	Chemical Industry	1,240	1,128	Russia, 100%
Polymetal	Russia	Mining of Metal Ores	846	1,124	Kazakhstan, 100%

Source: EDB MMI.

This list of the eight leaders consists mostly of Russian TNCs, but includes also investors from Azerbaijan (SOCAR) and Kazakhstan (KAZ Minerals). Notably, the shares of SOCAR in Azerbaijan's investment stock in the region (less than 45%) and of KAZ Minerals in Kazakhstan's investment stock in the region (34.5%) are considerably lower than the combined contributions of the leading Russian TNCs to the Russian FDI in the region. This, however, can be attributed to a statistical effect, as five of the leaders are Russian TNCs. If we look at the share of LUKOIL alone, it is lower than that of Azerbaijan, and closer to that of Kazakhstan — this oil and gas company accounted for 39.2% of total 2020 year-end Russian FDI stock in the post-Soviet countries.

As for the Belarusian investor Yuras Oil, one of the eight leaders in mutual investments in the CIS at the end of 2020, it should be noted that in 2021 businessman D. Lobyak sold the company's minority stake in Uralkali ([Interfax, 2021](#)). Accordingly, next year Yuras Oil will leave the rating of the largest CIS FDI exporters.

Out of all leading investors in the post-Soviet area, only the Russian Sberbank has significant FDI stock in non-commodity sectors. It also has one of the smallest shares in the leading FDI recipient country. Thus, Kazakhstan accounts for only 53%. Only Gazprom has a smaller share (Belarus: 39%). It should be noted that Gazprom's choice of investment targets in the CIS is not always dictated by the need to gain access to raw materials; another important reason to invest abroad is the desire to support product sales, particularly in Belarus, which, among other things, is an important transit route for gas deliveries to the EU. A similar situation can be observed with the Azerbaijani SOCAR's FDI in Georgia, which accounts for 77% of that company's FDI stock in the post-Soviet countries.

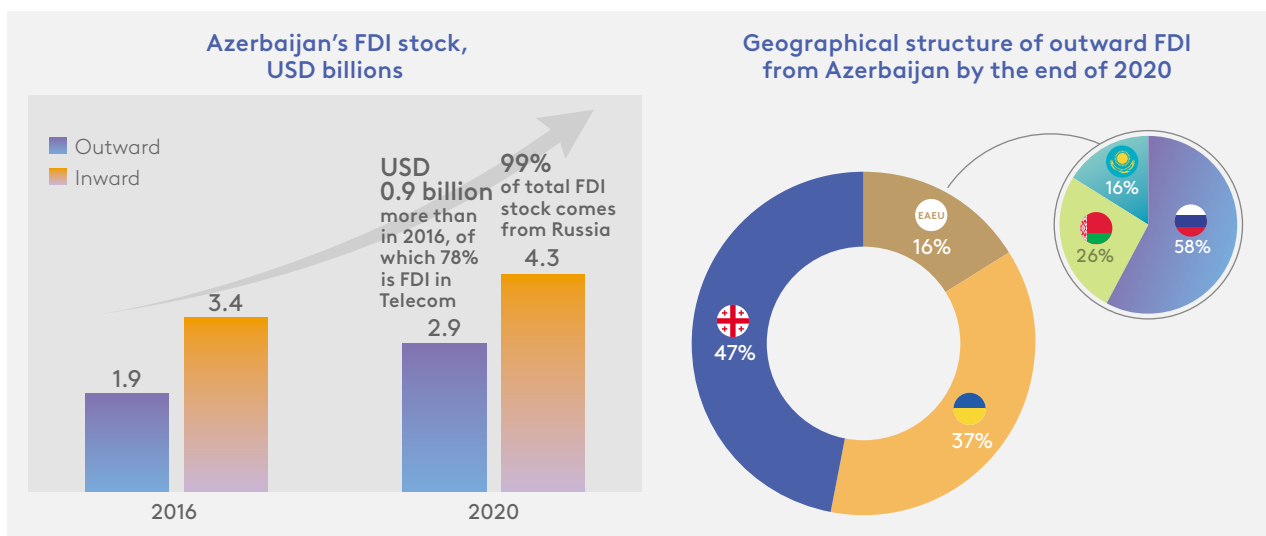
1.5. AZERBAIJAN'S FDI: ACTIVE ROLE IN THE CIS

Over the last several years, a single acquisition of a Russian asset in Ukraine has been the main source of growth of Azerbaijan's FDI stock (see [Figure 5](#)). This, however, should not be regarded as a chance occurrence; the leader of Azerbaijan's telecommunications market took advantage of a fortuitous situation to start the implementation of its existing business internationalisation plan.

Azerbaijan has become a highly mature capital exporter, as evidenced, among other things, by the rather diversified geography of its FDI stock. According to UNCTAD, by the end of 2020, Azerbaijan's global FDI stock reached USD 26.8 billion ([UNCTAD, 2021](#)). That means that post-Soviet countries account for only 10.8% (which is comparable to the Russian indicator, which is close to 10%). Within the CIS, the main recipients of Azerbaijan's FDI (besides neighbouring Georgia) are Ukraine and Russia; it also has sizeable direct investments in Belarus and Kazakhstan, and a project in Uzbekistan.

Over the last four years, Azerbaijan's inward and outward FDI has grown considerably. Outward FDI stock increased from USD 1.9 billion to USD 2.9 billion, mostly due to investments in the Ukrainian telecommunications sector. Inward FDI stock increased from USD 3.4 billion to USD 4.3 billion. Among the CIS countries, Russia is the key source of Azerbaijan's inward FDI.

Figure 5. Azerbaijan’s FDI Stock



Source: EDB MMI.

Azerbaijan’s FDI has a well-diversified sectoral structure. Investments are mainly directed to the following sectors of the CIS countries: Telecommunications, Retail Trade, Transport, Warehousing and others. Given the specialisation of Azerbaijan’s economy, it is only natural that a large share of its FDI stock is concentrated in Manufacture of Food Products. At the end of 2020, this amounted to USD 97 million in absolute terms, which is more than 15% of total mutual FDI stock of CIS countries in that sector, or approximately 2.5 times more than the share of Azerbaijan in the aggregate mutual FDI stock in the region. Azerbaijan’s direct investments in the CIS Real Estate sector are also quite significant.

It is highly likely that in the next several years, the main recipients of Azerbaijan’s capital will be Georgia (because of the “neighbourhood effect”), Ukraine (if only because Russian competitors have left the country), and Russia (as a leading post-Soviet country with extensive ties to Azerbaijan). It is in these three countries that we will observe the highest sectoral diversification of Azerbaijan’s FDI. Belarus and Kazakhstan also have a good chance of getting more of Azerbaijan’s FDI, but only through one-off deals as Azerbaijani producers seek to solidify their positions in the sales markets of those EAEU member states.

2. MUTUAL DIRECT INVESTMENTS OF THE EAEU MEMBER STATES

2.1. MUTUAL FDI OF THE EAEU MEMBER STATES: DEEPENING OF CORPORATE INTEGRATION

Inclusion of non-EAEU post-Soviet countries in more intensive corporate integration around Russia, Kazakhstan, and Belarus is critical for transforming the former Soviet countries into one of the leading centres of the emerging polycentric world. However, it is first necessary to eliminate weaknesses in the mutual FDI of the EAEU member states.

According to the EDB MMI, there are investment pairs with zero mutual FDI in the EAEU (see [Table 3](#)). An important proviso: this applies only to projects valued at more than USD 1 million. For example, it is well known that Kyrgyzstan has FDI in neighbouring Kazakhstan, but it is measured in tens and hundreds of thousands of dollars, and restricted to a limited number of small projects. According to the EEC, in 2020 alone, new Armenian FDI in Belarus and Kazakhstan amounted to USD 2.7 million and USD 1.0 million, respectively; Kyrgyzstan invested USD 0.3 million in Belarus, while in Russia and Kazakhstan there was a net outflow of FDI from Kyrgyzstan due to the crisis in the economy ([EEC, 2021](#)).

The EEC also reports that in 2019, a year that was more favourable for mutual investments, Armenia invested USD 53 million in Russia and USD 1 million in Kazakhstan, and Kyrgyzstan invested USD 41 million in Kazakhstan — amid an outflow of capital from Russia ([EEC, 2020](#)) which may have been caused, among other things, by emigration of Kyrgyzstan citizens into the Russian Federation.

Table 3. Mutual FDI stock of the EAEU Member States at the End of 2020, USD millions

FDI Source Country	FDI Recipient Country					All EAEU Member States
	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan	
Russia	X	11,175	5,143	3,047	946	20,311
Kazakhstan	2,813	X	24	0	618	3,455
Belarus	1,501	45	X	1	2	1,549
Armenia	3	0	38	X	0	41
Kyrgyzstan	2	0	0	0	X	2
All EAEU Member States	4,319	11,220	5,205	3,048	1,566	25,358

Source: EDB MMI.

Inasmuch as the “neighbourhood effect” plays an important role within the EAEU, large groups of small investors may be active only in a limited number of adjoining countries, which is a good illustration of the “regional TNC” phenomenon (Kuznetsov, 2016). This is exactly what happens with the FDI originating from Russia, Belarus, and Kazakhstan, particularly (but not only) in regions that lie close to the borders. For example, in 2019, the net inflow of FDI from Belarus to Kazakhstan amounted to USD 23 million, and the net inflow of FDI from Kazakhstan to Belarus to USD 5 million (EEC, 2020). A year later, there was a net outflow of Belarusian FDI from Kazakhstan, while direct investments from Kazakhstan in Belarus increased by another USD 4.1 million (EEC, 2021). Obviously, the overwhelming majority of such small deals remains outside the purview of the EDB MMI.

Therefore, if we consider only large investors, the EAEU has only a few investor pairs characterised by intensive interactions, namely:

- Bilateral interactions between Russia and Kazakhstan;
- Bilateral interactions between Russia and Belarus;
- Russia’s FDI in Armenia;
- Russia’s FDI in Kyrgyzstan;
- Kazakhstan’s FDI in Kyrgyzstan.

If Russia is taken out of the equation, EAEU investment pairs currently look rather unimpressive, with only Kazakhstan’s FDI in Kyrgyzstan standing out. The “neighbourhood effect” continues to play the key role in the Central Asian countries.

Bilateral investment interactions between Belarus and Kazakhstan and between Belarus and Armenia show some promise, in the latter case due to the activity of G. Tsarukyan’s Multi Group.

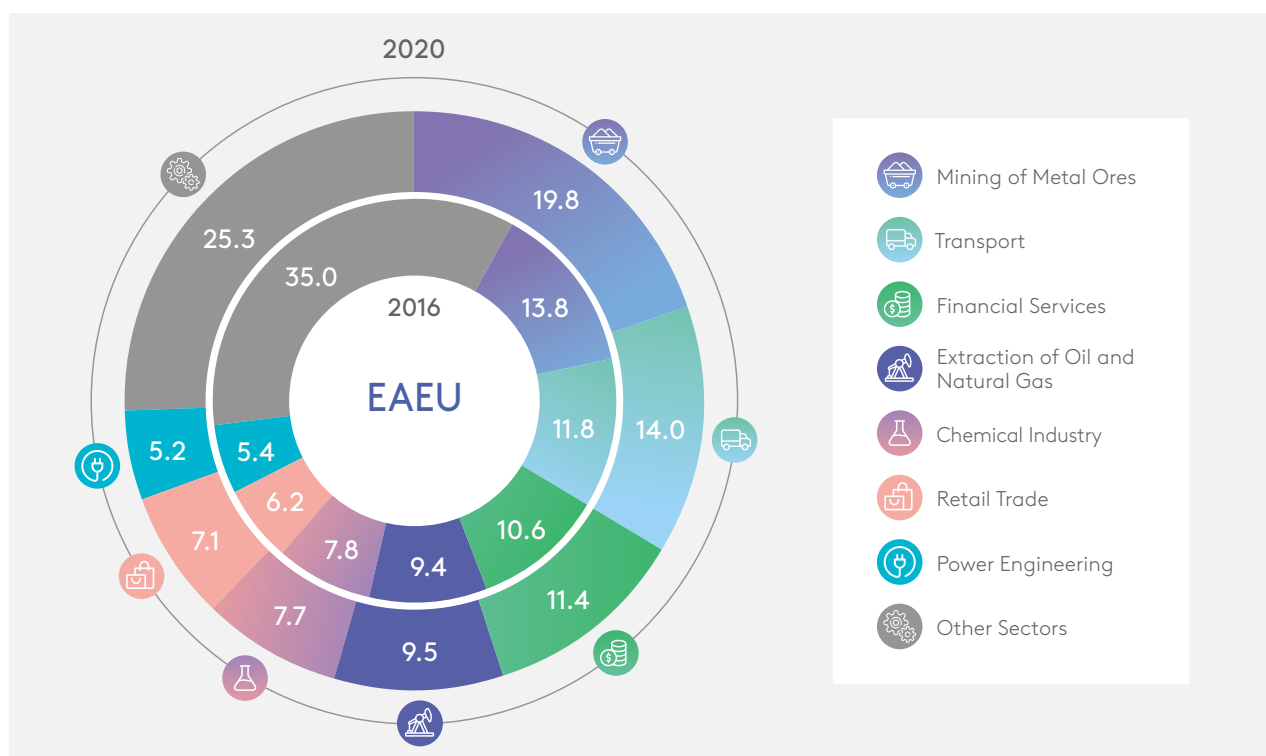
Over the last four years, the highest growth rates have been recorded for Russian FDI in Kazakhstan and Belarus, with FDI stock in those countries having increased by 36% and 47%, respectively. Russian capital investments in Belarusian chemical production almost tripled (primarily because of the aforementioned investments by SAFMAR in Slavkali, and by Omsk Carbon Group in the Mogilev plant).

The sectoral structures of mutual FDI stock of the EAEU member states and the CIS countries are different (see Figure 6). In the EAEU, the leading sector is Mining of Metal Ores (19.8%), followed by Land Transport and Transport via Pipelines (14%) and Financial Services (11.4%). Extraction of Oil and Natural Gas comes only fourth (9.5%). The leadership of Mining of Metal Ores is secured by the projects implemented by Russia and Kazakhstan. That sector made the largest contribution to the increase of mutual FDI stock of EAEU member states over the last four years (USD 2.2 billion).

The progressive development of integration in the EAEU should stimulate mutual FDI in Manufacturing Industry and Services, because success of “advanced” forms of integration is of secondary importance for commodity sectors. Inevitably, in addition to the basically

favourable conditions, new Russian chemical and mechanical engineering projects in Belarus and Kazakhstan may run into various obstacles, but we do not see any unsurmountable barriers to FDI growth.

Figure 6. Sectoral Structure of Mutual FDI Stock of the EAEU Member States, %



Source: EDB MMI.

Private national investors hold a dominant share in the ownership structure of companies investing within the EAEU, with 55% at the end of 2020. The share of investor companies controlled by the state (with equity stakes in excess of 50%) changed little since 2016, and in 2020 stood at 36%. Half of those companies are fully controlled by the state. The number of projects where investor companies are co-owned by TNCs with foreign equity participation decreased over the last five years, from 10% to 6%.

The seven largest Eurasian investor companies accounted for more than USD 11.3 billion of direct investment stock accumulated in the EAEU by the end of 2020. Their share stands at 45% of mutual FDI stock of the EAEU member states, having increased by 4 p.p. over the last four years.

Projects with lower capital intensity have wider sectoral coverage, and grow at a faster pace. Thus, over the last four years, the number of projects valued at below USD 5 million increased by 11%, and total FDI stock by 16%. Projects with values of up to USD 300 million constitute the main body of projects (90% of their total number), and are implemented in 38 sectors where EAEU member states have mutual FDI.

Eurasian investors display more interest in greenfield EAEU projects than in acquisition of equity participations. Over the last four years, such FDI stock increased by a factor of 1.6, with annual growth rates in excess of 10%.

A new trend is emerging in the EAEU — growth of mutual FDI of the Union member states in Manufacture of Motor Vehicles, Machines, and Electrical Equipment (OKVED Codes 27–29). Over the last three years, the value of such FDI stock has increased by a factor of 1.6. However, it remains rather modest.

Development of investment flows in the EAEU over the medium term will be characterised by the following trends:

- In the next several years, the structure of investment flows will be determined by the integration processes in the region, and by the deepening of bilateral relations between countries.
- The sectoral structure of mutual FDI stock will gradually become more and more diversified due to the expansion of Retail Trade, Financial Services, and Manufacture of Motor Vehicles, Machines, and Electrical Equipment.
- With the global environmental agenda gaining in importance, there will be a surge in mutual FDI in “green” projects. Over the last two years, mutual FDI stock in such projects has increased by 56%. Kazakhstan will reinforce its leadership in attracting foreign direct investments in renewable energy sources.
- The number of greenfield projects envisaging construction of production facilities “from the ground up” will continue to grow at a rapidly expanding rate. Investors are increasingly interested in expanding into new markets with their technologies and resources. That process will be accompanied by the transfer of technologies and modernisation of FDI recipient countries.
- Active growth will be achieved by small projects (with investments ranging from USD 1 million to USD 5 million) covering a broad range of sectors. That will be facilitated by national export promotion programmes, development of digital technologies, and integration of national markets.

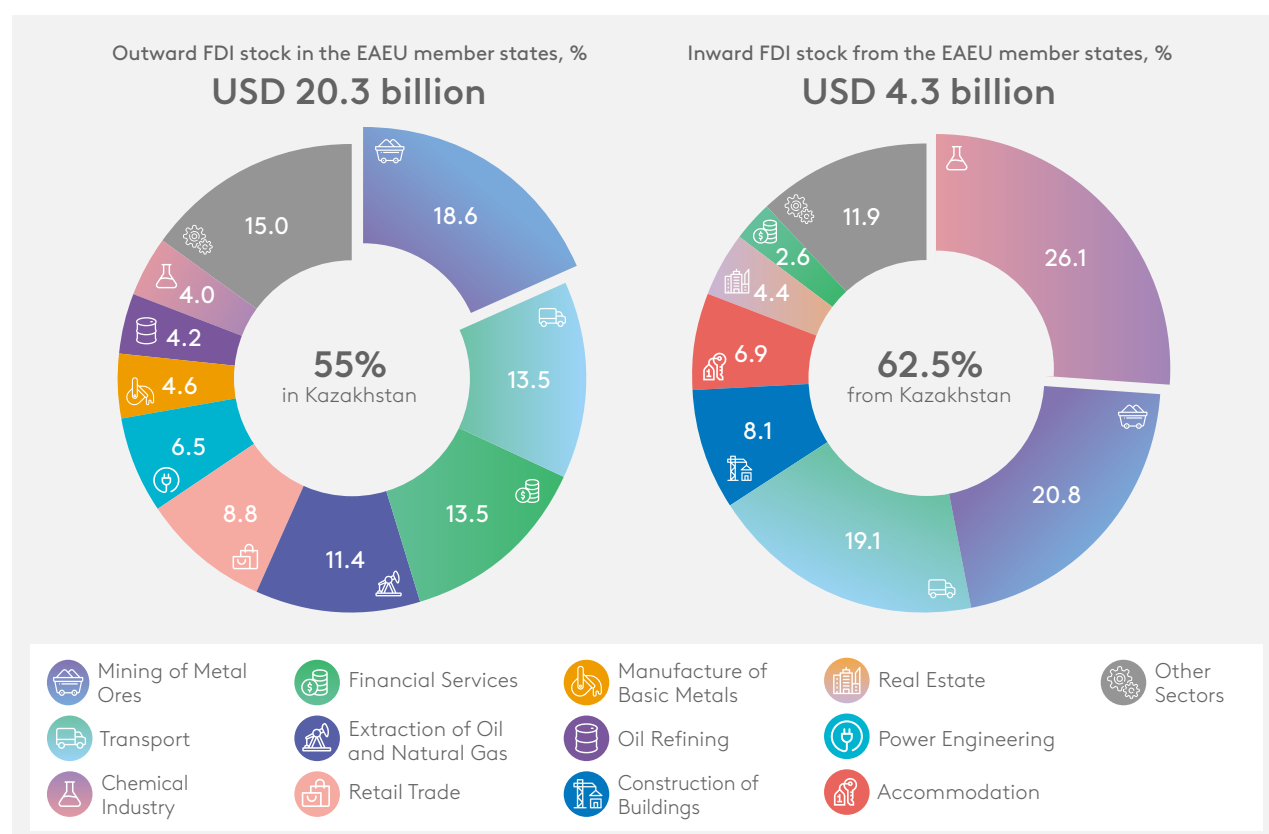
2.2. ROLE OF THE EAEU IN RUSSIAN FDI, AND DESCRIPTION OF INVESTMENT FLOWS

Russia is the only country in the post-Soviet area with a positive net balance of outward mutual FDI. At the end of 2020, Russian investors accounted for almost 80% of all outward mutual FDI stock of the EAEU member countries and all mutual post-Soviet FDI stock. Accordingly, the total value of Russian FDI stock in the EAEU member states amounts to USD 20.3 billion out of total EAEU stock of USD 25.2 billion. Russian FDI stock in the CIS countries is USD 37 billion out of total mutual FDI in the post-Soviet area of USD 45.9 billion.

Russian outward FDI stock accumulated in the CIS countries and the EAEU member states from 2016 to 2020 increased by a factor of 1.3. The largest growth (2.1 times) was recorded for FDI in Uzbekistan. The main recipients of Russian FDI are Kazakhstan (30% of total FDI stock originating from Russia in 2020), Uzbekistan (24%), Belarus (14%), Azerbaijan (11%), and Armenia (8%).

The sectoral structure of FDI stock of the EAEU member states in Russia is different from the sectoral structure of total EAEU FDI stock, which is logical because in this case Russian TNC preferences are taken out of the equation. At the end of 2020, the Russian Chemical Industry accounted for the highest share of total EAEU FDI stock (26.1%), followed by Mining of Metal Ores (20.8%) and Land Transport and Transport via Pipelines (19.1%) (see Figure 7).

Figure 7. Sectoral Structure of Russian FDI and Direct Investments of the EAEU Member States in Russia, %



Source: EDB MMI.

Most Russian TNCs, including those controlled by the state, often use offshore areas and other “trans-shipping destinations” for their FDI. As a result, not all Russian FDI stock is captured by official statistics. EDB MMI data show 3 times as much Russian FDI stock in the post-Soviet countries as CBR data, and 2.4 times as much in the EAEU member states (see Table 4).

The differences in the value of FDI stock as reported by the EDB MMI and official statistics were typical for each year and for each country, with the exception of Ukraine in 2020, which may be due to the use of other methods to assess capital investments in that country. On the one hand, many Russian TNCs announced their intention to leave Ukraine, and are executing deals required to realise that intention. On the other hand, in many cases it remains impossible to clearly identify the year (2020 or 2021) during which the relevant “extinguished” investments were classified as actually closed.

The largest discrepancies in the data on the scope of Russian investment are recorded for Kyrgyzstan and Armenia in the EAEU, and for Azerbaijan and Uzbekistan in other CIS countries, the latter being the two countries with the highest economic potential for closer cooperation with the EAEU.

Table 4. Russian FDI Stock in the EAEU Member States and the Adjoining States: Comparison of EDB MMI Data and CBR Data (2016, 2018, and 2020)

FDI Recipient	2016 Year-End FDI Stock, USD millions		2018 Year-End FDI Stock, USD millions		2020 Year-End FDI Stock, USD millions	
	EDB MMI	CBR	EDB MMI	CBR	EDB MMI	CBR
Armenia	2,958	1,192	2,934	1,261	3,047	1,049
Belarus	3,491	3,819	4,142	3,960	5,143	3,676
Kazakhstan	8,217	3,008	9,374	3,302	11,175	3,515
Kyrgyzstan	762	167	907	197	946	223
<i>All EAEU Member States</i>	<i>15,428</i>	<i>8,186</i>	<i>17,257</i>	<i>8,450</i>	<i>20,311</i>	<i>8,463</i>
Azerbaijan	3,379	28	4,038	242	4,221	242
Georgia	904	343	998	357	986	352
Moldova	366	229	388	257	472	248
Tajikistan	750	442	630	370	642	393
Turkmenistan	1	...	0	...	1	...
Uzbekistan	4,269	231	7,760	63	8,950	177
Ukraine	3,964	3,425	3,326	3,104	1,400	3,016
<i>All 12 Post-Soviet Countries</i>	<i>29,061</i>	<i>12,884</i>	<i>34,397</i>	<i>12,843</i>	<i>36,983</i>	<i>12,891</i>

Sources: CBR data (interactive spreadsheets at www.cbr.ru) and EDB MMI data.

Let us give some more examples. According to the CBR, at the end of 2020, the EAEU accounted for 66% of total Russian FDI stock in the post-Soviet area. According to EDB MMI data, that indicator was much lower (55%), which — from the viewpoint of corporate integration logic — is indicative of closer mutual ties between Russian investors and all CIS countries that are not EAEU members. Registration of Russian commodity assets (and not only those) in Azerbaijan and Uzbekistan through offshore areas and other “trans-shipping destinations” (where holding companies are based) results in those countries occupying bottom positions in official statistical ratings, ahead of only Turkmenistan (and, in the case of Azerbaijan, Kyrgyzstan). According to the EDB MMI, in terms of the value of Russian FDI stock, Uzbekistan is exceeded only by Kazakhstan, and Azerbaijan only by Kazakhstan and Belarus.

The EDB MMI identified almost three times more Russian FDI stock in Armenia than the CBR did. It should be emphasised that Russian investments in that country are characterised by robust sectoral diversification. The most notable examples are Gazprom projects (more than USD 0.9 billion), gold mining subsidiaries of Geopromining, power engineering assets of Tashir Group (USD 0.5 billion each at the end of 2020), the Russian Railways project (USD 0.2 billion), and the RUSAL plant. Key assets in the Services segment include Ardshinbank (2020 year-end capital: USD 176 million), Ameriabank (USD 103 million), and Bank VTB (Armenia) (USD 95 million), as well as the telecommunications company MTS (USD 99 million).

Differences in the data on Russian FDI can also be noted not only in Armenia, but also in Belarus. Out of all Russian direct investments in Belarus, assessment of Gazprom FDI stock presents the most challenges.

Therefore, the EDB MMI is a valuable complement to official statistics on direct investments in CIS countries as maintained by central banks. The EDB MMI makes it possible to bridge the information gap in accounting for certain investment projects implemented through offshore areas and other “trans-shipping destinations”, and can be used as an additional tool for comprehensive analysis of corporate investment activities, among other things, at regional and sectoral levels.

2.3. INTERESTS OF KAZAKHSTAN’S INVESTORS: IMPORTANCE OF DIVERSIFICATION

Kazakhstan’s FDI in the post-Soviet area has a well-diversified geographical structure (see Table 5), with the country’s two EAEU neighbours being the key partners. Kazakhstan accounts for 39% of all mutual post-Soviet FDI stock in Kyrgyzstan, and for almost 59% of mutual post-Soviet FDI stock in Russia.

Table 5. Sectoral and Geographical Structure of Kazakhstan’s FDI Stock in the Post-Soviet Countries at the End of 2020

FDI Recipient Country	2020 Year-End FDI Stock, USD millions					
	Total	Mining of Metal Ores	Land Transport and Transport via Pipelines	Accommodation	Warehousing and Support Activities for Transportation	Provision of Financial Services, Excluding Insurance and Retirement Services
Russia	2,813	900	823	300	39	112
Kyrgyzstan	618	350	-	-	-	23
Georgia	298	-	-	5	220	13
Uzbekistan	85	-	-	-	-	45
Moldova	33	-	-	-	-	-
Belarus	24	-	-	-	-	20
Ukraine	24	-	-	-	-	17
Tajikistan	19	-	-	-	-	4
Azerbaijan	8	-	-	-	4	-
Total	3,922	1,250	823	305	263	234

Note: no projects with FDI valued at more than USD 1 million were identified in Armenia and Turkmenistan.

Source: EDB MMI.

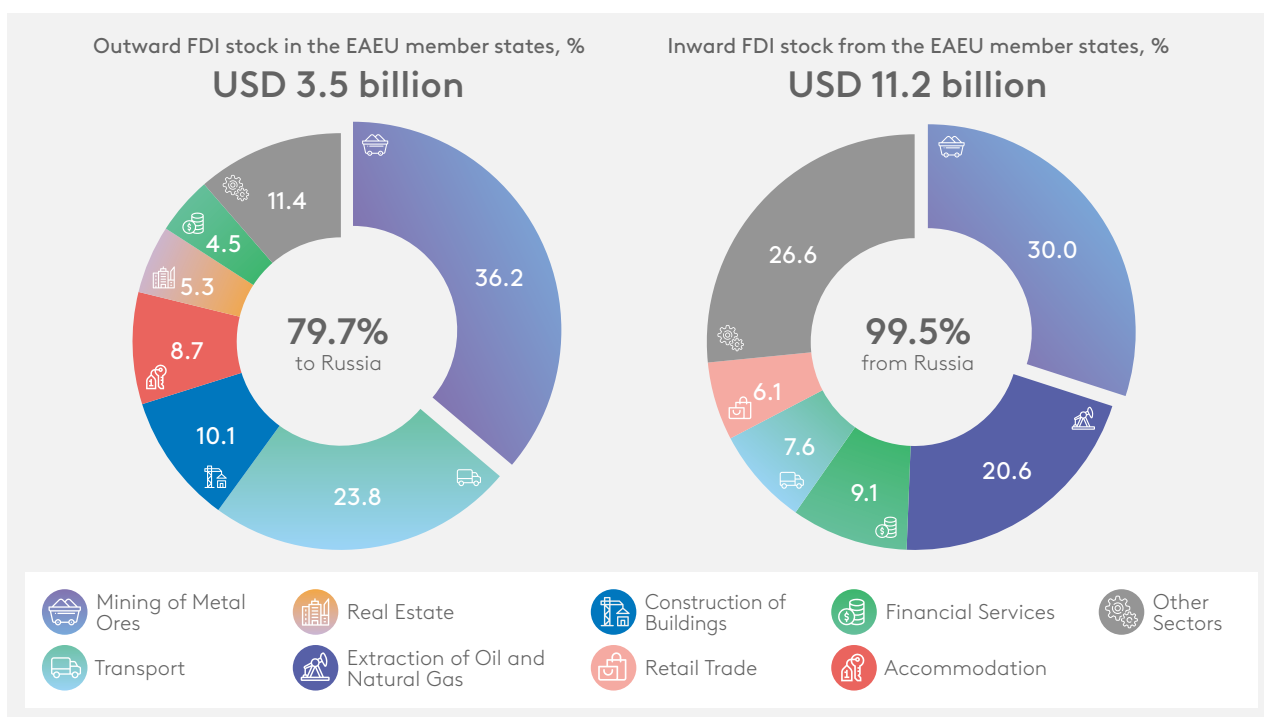
It should be noted that sizeable Kazakhstan’s FDI in some countries is represented mostly by single large deals. For example, more than half of total FDI stock in Kyrgyzstan is related to the mining of non-ferrous metals, namely to the Bozymchak copper and gold mine, which attracted direct investments from KAZ Minerals, one of the largest of Kazakhstan’s investors in the post-Soviet area. Outside of the EAEU, a similar situation can be observed in Georgia, where the key project is the Batumi Oil Terminal, which received funding from Kaztransoil.

Kazakhstan’s FDI in Russia is the most diversified. Like in Kyrgyzstan, the leadership role in Mining of Metal Ores is attributable to one large investor. Thus, the Baimskaya copper project (Chukotka Autonomous District) received FDI from KAZ Minerals (owned by Nova Resources since 2021). Investors from Kazakhstan regularly attempt to acquire assets in the Russian Non-Ferrous Metallurgy sector. The second-largest sector (Land Transport and Transport via Pipelines) is also represented by a single investor – KazMunaiGaz is a member of the joint Russia–Kazakhstan Caspian Pipeline Consortium, which owns assets in several Russian regions.

The only significant and prominently diversified recipient sector of Kazakhstan’s FDI in the post-Soviet area is Provision of Financial Services, Excluding Insurance and Retirement Services (OKVED Code 64). The diversification is not merely geographical, as shown in Table 5, because several financial organisations with Kazakhstan’s equity participation (Halyk Bank, BTA Bank, etc.) are involved in cross-border investment projects.

According to the EDB MMI, the key sector of Kazakhstan’s economy receiving FDI from the EAEU partners (essentially, from Russia) is Mining of Metal Ores (with a 30% share in the sectoral structure of inward FDI stock originating from the EAEU). Extraction of Oil and Natural Gas has the second-largest share (20.6%). The third position is held by Provision of Financial Services (9.1%), where the bulk of investment capital is provided by a trio of Russian banks (Sberbank, Alfa-Bank, and VTB) (see Figure 8).

Figure 8. Sectoral Structure of Kazakhstan’s FDI and Direct Investments by the EAEU Member States in Kazakhstan, %



Source: EDB MMI.

2.4. EAEU INVESTMENT PAIRS EXCLUDING RUSSIA: LIMITATIONS AND OPPORTUNITIES

If Russia is taken out of the equation, EAEU investment pairs currently look rather unimpressive (Figure 9), with only Kazakhstan's FDI in Kyrgyzstan standing out (see above). There are three more statistically significant capital flows that can be traced back to large investors – FDI from Belarus in Kazakhstan, from Armenia in Belarus, and from Kazakhstan in Belarus.

There are several objective limitations on investment integration within the EAEU excluding Russia:

- Absence of common borders (with the exception of Kazakhstan and Kyrgyzstan) – this reproduces the North American model, where Canada and Mexico weakly interact with one another, but closely cooperate with the USA;
- Lack of alignment between sectoral structures of the economies of the partner countries;
- Insufficient efforts by the relevant countries and their companies to build up investment integration (in practical terms, this obstacle can be overcome by paying due attention to the problem).

Figure 9. CIS Investment Pairs (by Outward FDI Stock), USD millions

Outward FDI stock from:	Outward FDI stock from:	Mutual FDI
Russia 11,175	2,813 Kazakhstan	13,988
Russia 8,950	4 Uzbekistan	8,954
Russia 5,143	1,501 Belarus	6,644
Russia 4,221	264 Azerbaijan	4,485
Russia 3,047	3 Armenia	3,050
Russia 1,400	0 Ukraine	1,400
Azerbaijan 1,357	9 Georgia	1,366
Azerbaijan 1,087	8 Ukraine	1,095
Russia 986	0 Georgia	986
Russia 946	2 Kyrgyzstan	948
Russia 642	0 Tajikistan	642
Kazakhstan 618	0 Kyrgyzstan	618

Source: EDB MMI.

The possible future expansion of the EAEU through accession of several CIS countries will have little impact on the current situation. For example, in Tajikistan, Russia accounts for more than 95% of total post-Soviet FDI stock. Tajikistan itself is not a significant source of FDI. The same is true for Uzbekistan, which received 98.5% of all post-Soviet FDI stock from the Russian Federation. On the other hand, the fact that Uzbekistan borders on Kazakhstan and Kyrgyzstan warrants a closer look at their mutual capital flows in the medium term.

Azerbaijan, which has so far not stated its intention to accede to the EAEU in the foreseeable future, provides an even more vivid example, with Russia accounting for more than 99% of inward FDI stock originating from the CIS countries, and 57.5% of Azerbaijan's outward FDI stock concentrated in the EAEU member states.

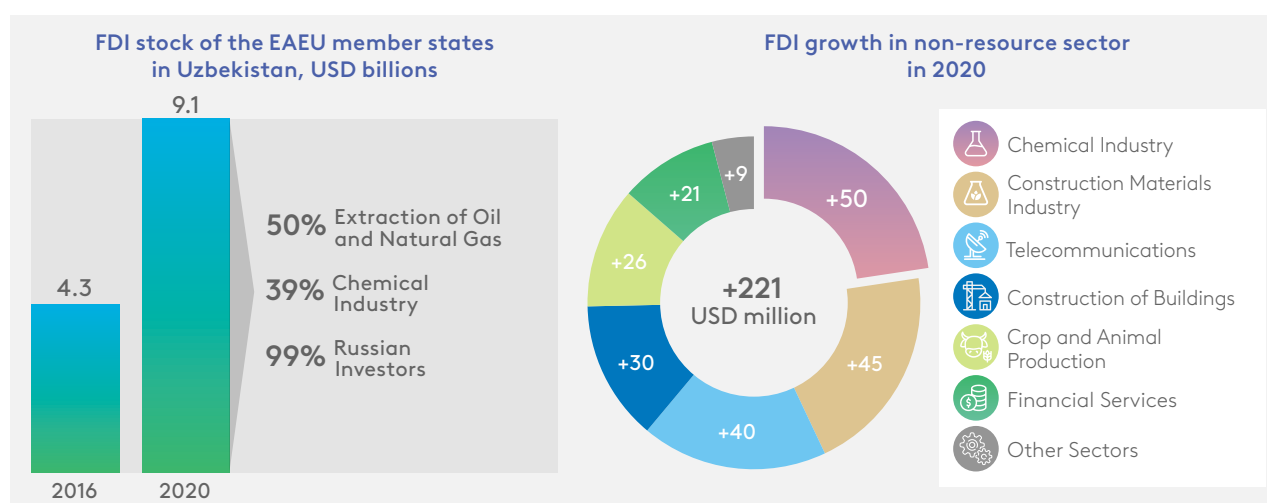
2.5. UZBEKISTAN: HIGH-POTENTIAL INVESTMENT PARTNER FOR THE EAEU MEMBER STATES

The position of Uzbekistan in FDI flows within the CIS countries is currently getting stronger. Over the last several years, the flow of foreign investments into the country has been mostly increasing, with a significant domination of Russian investments in the Mining Industry (more than 80% of total global FDI stock in the country, according to data published by the Central Bank of Uzbekistan) (see Figure 10).

At the end of 2020, the share of Russian accumulated investments in total post-Soviet FDI in Uzbekistan increased and exceeded 97%. In terms of sectoral makeup, in 2020 investors once again reproduced the conventional structure of investment preferences shaped by the dominant position of the Russian Mining Industry. The Central Bank of Uzbekistan reports that in 2020, total global FDI stock in Uzbekistan amounted to USD 10.3 billion, of which the share of Russian FDI of only two companies (LUKOIL and Gazprom), according to the EDB MMI, reached 82%.

However, the dominant presence of large Russian investors, including LUKOIL and Gazprom, as well as VEON (an international company that sprouted from the Russian TNC VypelCom, and is still controlled by Russian businessmen), is being gradually diluted by Russian agricultural and manufacturing companies, such as Eco-Culture, Shchylkovo Agrokhim, Eurocement Group, Rostselmash, KAMAZ, and Rosoboronexport. In 2017–2020, total FDI stock of those companies in Uzbekistan's economy increased from USD 93 million to USD 365 million, i.e., it almost quadrupled.

Figure 10. Inward FDI Stock in Uzbekistan Originating from the EAEU Member States



Source: EDB MMI.

Kazakhstan remains the second-largest investor in Uzbekistan's economy. In 2016, Kazakhstan's businessmen struck several large deals, including United Cement Group investments in Bekabacement (the fourth-largest cement plant in the country) and Kuvasaycement (the third-largest cement plant in the country). Cement plants managed by a company from Kazakhstan (holder of a 51% stake) have been operating in Uzbekistan since 2006, but it proved difficult to allocate FDI by years because of the poor quality of their financial statements. Still, by 2020 Kazakhstan's investments in both plants amounted to at least USD 15 million. A rather large FDI injection (USD 17 million) was received in 2020 by the NRG joint development project with the participation of BI Group from Kazakhstan.

Another large investment project implemented by Kazakhstan's companies in 2016–2020 was the opening in 2019 of Tenge Bank, with a branch network covering several Uzbekistan regions, which resulted in an inflow of Kazakhstan's FDI of USD 33 million by 2020. The remaining projects of companies from Kazakhstan in Uzbekistan (opening of bank branches and insurance companies), with a total value of less than USD 10 million, were also concentrated in the financial sector.

Investment activity by other CIS countries in Uzbekistan is rather subdued. Azerbaijan reported only one small investment project (~USD 1 million), which involved the purchase in 2018 of a 50% stake in the beverage manufacturer Fergana-Tovuz. In 2016, Belarusian investors created the Amkodor joint venture, specialising in the manufacture of special vehicles at the Tashkent Agricultural Machinery Plant, with 2020 year-end FDI stock of USD 26 million. In 2020, a rather large deal (USD 22 million) was closed with the participation of the Georgian TBC Bank, opening a branch in Tashkent. It is expected that another USD 20 million will be allocated by the financial units of the Georgian bank and its local partner, Uzbek-Oman Investment Company.

Thus, the current trends in FDI flows to Uzbekistan from within the CIS indicate that the dominant position of Russia, based mostly on objective factors in the investment climate, will remain strong. The steps taken by the country's government over the last several years (2018–2020) to deploy institutional mechanisms designed to attract global FDI flows (liberalisation of the foreign exchange market, creation of seven free economic zones, expansion of cooperation with international financial organisations and development institutions) are capable of stimulating new foreign investments in the country over the medium term. Several large investment projects with the participation of investors from the CIS countries were announced in 2020. For example, the Cyprus-based Altmax Holding, owned by the Russian businessman Andrey Filatov, disclosed plans to invest more than USD 1.8 billion in a 1,500 MW CHP in Uzbekistan (TASS, 2020). The new power station will, among other things, export electricity to Uzbekistan's southern neighbours — Tajikistan, Turkmenistan, and Afghanistan.

The investment potential of Uzbekistan's investors is quite limited, even within the CIS. The low productivity of the key sectors of Uzbekistan's economy, the substantial share of the agri-food sector in the national GDP, the absence of a powerful corporate sector, and several other factors curtail Uzbekistan's potential as a source of FDI, and give rise to a number of problems that restrain potential investments abroad (Vinokurov et al., 2021). The government is also playing its role, promoting a programme designed primarily to boost domestic investment activity. As a result, according to the EDB MMI, Uzbekistan's total FDI stock in the CIS countries in 2016–2020 did not exceed USD 10 million.

3. LEGISLATIVE AND REGULATORY ENVIRONMENT: CONDITIONS FOR THE EXPANSION OF INVESTMENT TIES IN THE EAEU AND THE CIS

Globalisation and expansion of foreign economic ties, combined with worldwide regional integration, gave rise to the need to regulate international cooperation, including foreign investments. FDI indicators in individual countries or among members of an integration association depend on well-defined laws and regulations stipulating the benefits and guarantees available to foreign investors, and on the judgments and opinions voiced by official authorities to demonstrate their willingness to take additional steps in granting new privileges and advantages to foreign investors ([Veselkova, 2015](#)).

Accordingly, critical components of the work carried out by governmental and inter-governmental bodies include enhancement of institutional mechanisms (primarily strategic planning and state programmes) and of the existing regulatory environment (laws on foreign investments, international treaties), as well as availability of financial support to national and foreign investment projects.

As regards mutual FDI in the EAEU member states and the CIS countries, one of the key factors is the body of bilateral and multilateral international treaties that establish a most-favoured nation regime which grants foreign investors an equal status, and/or a national regime placing foreign capital on the same legal footing as domestic capital.

The wording of the FDI laws adopted in the CIS countries describes a predominantly national regime. However, in practice many provisions that affect foreign direct investment are capable of handicapping the investors relative to their domestic peers (for example, the need to go through customs clearance, the ban on foreign capital in certain sectors of the economy, and taxation differences). In fact, any analysis of the legal regime governing FDI in the CIS countries must consider numerous circumstances, including the scope and form of the investment, the target sector, and who the investor is.

Bilateral treaties are the key element of the body of laws and regulations shaping investment flows among individual members of integration associations in the post-Soviet area. They underpin all investment interactions among the Commonwealth countries. They contain not only the basic investment terminology, but also guarantees of protection from double taxation of investors, and tools designed to encourage investment activity, and they form, in their entirety, a universal legal mechanism that enables investors to attain their objectives. Still, there exists a CIS-specific legal and regulatory problem, namely, the absence of a multilateral document that would contain uniform FDI standards relying on generally accepted principles, and would be signed by all Commonwealth members.

The EAEU contractual framework defines the key FDI-related concepts, and procedures for their implementation. This is the most detailed regulatory framework operating on a multilateral

basis in the post-Soviet area. The Treaty on the Eurasian Economic Union sets forth provisions on liberalisation of trade in services, incorporation, activities, and investments (Article 66), and on relevant liberalisation principles (Article 67), and those provisions stipulate special preferences for investors and create a free market for services. Annex 16 to the Treaty sets out the key principles that govern the investment process and establish mechanisms for legal treatment and protection of investments (including guarantees, transfer of title, settlement of disputes, indemnity, and the impossibility of expropriation or nationalisation). The Union member states undertook not to do anything that may worsen the business environment, and to retroactively apply all additional guarantees granted by the Treaty to all investors from 16 December 1991. Another important advantage of the EAEU is that it grants to all member-state investors a national regime treatment, and prohibits application of quantitative, investment, or other restrictions ([Eurasian Economic Union, 2020](#)).

The *Agreement on Exchange of Information, Including Confidential Information, in the Financial Sphere with a View to Create in the Financial Markets Conditions Conducive to Free Movement of Capital* came into effect in 2016. The agreement stipulates procedures for the use of information and its exchange among financial regulators. Implementation of the agreement will improve protection of the rights of participants in the financial market, investors and issuers, and ensure transparency and financial sustainability of organisations operating in the financial market. In November 2020, the EEC Board approved a roadmap for the establishment in the EAEU of a Common Exchange Space to ensure free movement of capital, goods, and services, to increase mutual investments, and to boost the investment appeal of the financial markets of the Union ([Eurasian Economic Union, 2020](#)).

Other EAEU initiatives include convergence of foreign exchange laws and regulations of the member states, which is expected to considerably simplify registration and implementation of cross-border operations, and development of anti-crisis and stabilisation measures to combat the COVID-19 pandemic. Therefore, the EAEU integration project remains an important capital export mobilisation factor, similar to incentives for the intertwining of capital in the EU for West European TNCs in the second half of the 20th century ([Kuznetsov, 2012](#)). Development of a common capital market remains one of the key conditions of steady growth of foreign economic activity among the Commonwealth countries and the EAEU member states.

Under current conditions, development banks working in the CIS countries (for example, the Eurasian Development Bank and the Development Bank of Kazakhstan) and bilateral and multilateral sovereign funds are the main sources of funding for large investment projects with a powerful integration impact.

Russia and Kazakhstan are the two Commonwealth countries with the most impressive track record of establishing new bilateral sovereign direct investment funds and supporting existing funds (the Russian Direct Investment Fund, the quasi-governmental fund Kazyna Capital Management). In addition, the following investment platforms were created in 2014–2020: the Russia–Kyrgyzstan Development Fund (charter capital: USD 500 million), the DBK Equity Direct Investment Fund (charter capital: USD 100 million), the Russia–Armenia Investment Fund (charter capital: USD 100 million), the Direct Investment Fund of the Republic of Uzbekistan (charter capital: USD 1 billion), and the Kazakhstan Investment Fund for Development (charter capital: USD 1 billion). The charter capitals of sovereign investment funds created in the other CIS countries are insignificant. Several investment projects remain unimplemented because of the lack of further funding. For example, in 2014 Russia and Azerbaijan initiated establishment

of a joint sovereign fund, but the project remains unrealised (Mamedov, 2020). This is a general problem: there is still no single sovereign direct investment fund with multilateral participation of all CIS countries, mainly because the amount of available national reserve assets prevents them from creating new investment capital mobilisation funds or becoming involved in multilateral initiatives.

The growth of FDI in the CIS is further hindered by the significant administrative barriers that still exist in the post-Soviet area, including excessive red tape, protracted procedures and timeframes for registration of land plots, approval of power supply specifications, receipt of construction permits in a number of CIS countries, etc. (Mamedov, 2020).

A number of country-specific issues related to the development of institutional FDI mechanisms remain unresolved. In our opinion, a flexible and centrally governed internationalisation strategy would be a considerable competitive advantage that might improve FDI regulation by government institutions. In most CIS countries, including Russia, there is no reference to FDI in strategy and policy documents. The effective term of the Foreign Economic Strategy of the Russian Federation expired in 2020, and has still not been resumed, even though that tool would apparently be extremely useful during the crisis conditions of the COVID-19 pandemic. In the State Programme of the Russian Federation *Development of Foreign Economic Activity* No. 330 dated 15 April 2014 (as amended by Decree of the Government of the Russian Federation No. 508 dated 31 March 2021), the term “investments” is used without having been properly clarified from the methodological point of view, and is mentioned eight times less frequently than the term “export”. According to the Accounts Chamber of the Russian Federation, the *Strategy for the Development of Venture and Direct Investments in Russia until 2030* has not been approved since 2018 (Accounts Chamber, 2020). The absence of strategy and policy documents dedicated to business internationalisation makes it possible to assert, with a degree of certainty, that Russia, as the main source of FDI in the post-Soviet area, is not fully utilising the potential for expanding its business in the “near abroad”. Similarly, key institutional mechanisms related to internationalisation of companies are lacking in most CIS countries.

APPENDIX 1. SOURCES OF FDI STATISTICS, RESEARCH PUBLICATIONS, AND DATABASES

The main sources of FDI information are corporate statistics and other official data, or expert assessments of direct investors' activities. At the state level, that information is collected and summarised mostly by the central (national) banks or (less frequently) by statistical bodies or other specialised agencies. Information gaps are closed by analyses (including econometric analyses) of various components of the national balance of payments and investment positions, and by comparisons against "mirror statistics" (information on the same capital flows published by other countries).

At the international level, information about the participation of individual countries in FDI flows is collected mostly for cross-country comparisons, and to identify cross-border direct investment trends. Unification of methodologies used by various national statistical bodies, including central banks performing their functions, acting mostly on the basis of OECD recommendations on FDI identification and measurement (OECD, 2008). The IMF is the undisputed leader in the geographical analysis of reciprocal FDI flows. Its consolidated tables featuring year-end positions in outward and inward FDI stock with a breakdown by countries are published on an annual basis on its website (such tables are available for 2009–2019) (IMF, 2021). However, the leading international organisation specialising in aggregation of FDI data is UNCTAD, with its annual global investment reports (UNCTAD, 2021).

UNCTAD maintains a proprietary database of FDI projects, but it also encourages regional integration associations to engage in more granular monitoring of mutual FDI. In particular, it conducted a round table at the International Investment Forum in Geneva in 2018. As for the Association of Southeast Asian Nations (which was engaged in similar efforts in the past), in 2019 its regular survey was published under the auspices of UNCTAD (ASEAN, 2019). The relevant regional UN commission traditionally prepares reports on FDI in Latin America and the Caribbean (CEPAL, 2021).

UNCTAD was ready for closer interaction with its African partners, and wanted to engage in direct cooperation with the EDB in the post-Soviet area, but in 2018 the operation of MIM CIS was suspended for four years after a six-year successful run (Kuznetsov, Gemuyeva et al., 2017). UNCTAD is currently using data collected by the EEC, which offers a generalised database on FDI in the EAEU member states for 2010–2020, with a more detailed record of development over the last five years, including express information on mutual investments regularly published on the Internet.

The most significant results in the area of FDI monitoring in large regional integration projects were achieved in the EU, where international organisations play only a secondary role in FDI monitoring (apart from detailed OECD statistics). We are referring not only to the rather detailed official statistics published by Eurostat, but also to the monitoring of investment projects in European countries (including post-Soviet countries) conducted by Ernst & Young. In addition to its database (which is not fully made public, but is used for commercial orders),

Ernst & Young publishes various summary reports (for example, [EY, 2021](#)). That project, with a twenty-year history, is gradually expanding its boundaries. Significant labour resources are engaged in monitoring activities.

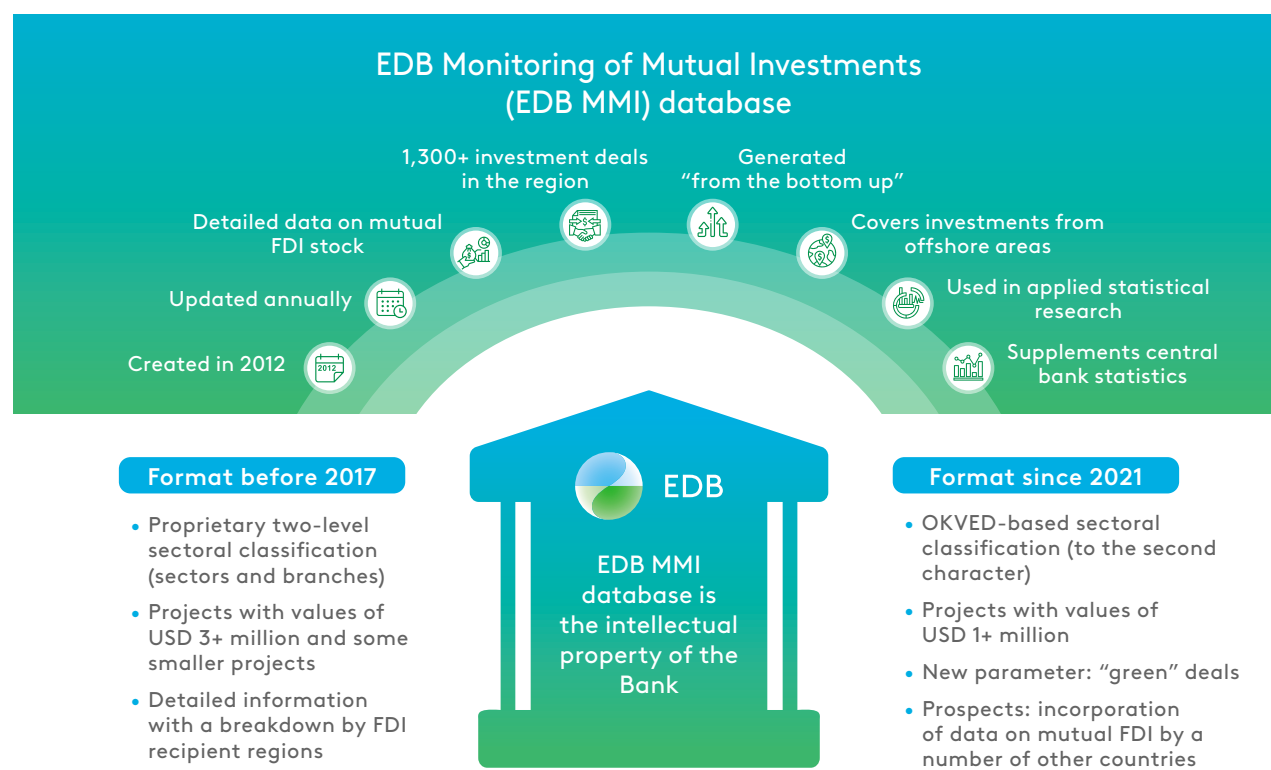
FDI databases are also maintained by many other companies. Some of them clearly rely on secondary sources of information, with Orbis Database becoming one of the most efficient aggregators of primary corporate data over the last several years ([Bureau van Dijk, 2021](#)). Some companies claim that their databases provide global coverage of certain segments, for example, the *Financial Times* database of greenfield projects and the Thomson Reuters M&A database (which changed its name several times). Some monitoring projects offer in-depth analysis of FDI linked to certain countries, primarily China; for example, the Mercator Institute for China Studies ([MERICS, 2020](#)) and the Rhodium Group ([Rhodium Group, 2021](#)) publish reports on Chinese FDI in Europe and the U.S.

There are also diverse individual scholarly FDI research projects. They produce valuable information on some regions, but as regards Russia and, to an even larger extent, countries of Central Asia, their FDI data contain so many gaps, inaccuracies, and manifest errors that the resultant picture hardly corresponds to reality. Accordingly, all such databases are employed by the EDB MMI only as sources of primary information, and should be used only as a supplement to corporate data and official statistics.

Researchers engaged in many integration projects with the participation of countries from the global South often find themselves in a similar situation, particularly where English has little currency in the local business communities. Attempts to obtain (rather scarce) information from national statistical agencies and other official bodies often prove futile. For example, it is only recently that reasonably detailed information on FDI in Uzbekistan originating from official national agencies became available in the post-Soviet area. That immediately drew international attention to the country, and its investment appeal increased rapidly.

The largest obstacle faced by post-Soviet FDI researchers is the lack of adequate data on the actual localisation of the so-called “trans-shipping FDI” — investments made through offshore areas and other “trans-shipping destinations”. Special challenges are presented by one variety of such investments, “round-tripping FDI”. This matter was reviewed in detail in a paper about Russian FDI statistics ([Kuznetsov, 2018](#)).

APPENDIX 2. EDB MMI METHODOLOGY



The EDB MMI database currently includes all projects with year-end FDI stock of more than USD 1 million for at least one year during 2016–2020. If FDI stock of the project is USD 0.6–0.9 million, it is not rounded up, and the project is not included in the database. No exceptions to this rule are made for individual sectors or countries.

Before 2017, only projects with FDI stock of more than USD 3 million for at least one year during the observation period (since the end of 2008) were included in the database on a mandatory basis. At the same time, the database contained records of projects with values of around USD 1 million (in some cases slightly less), if such projects were in sectors characterised by low capital-intensity or weak mutual investment ties. The projects related to the so-called "Belarusian commodity distribution network" are a good example. Despite the advantages of that approach (it provided information on FDI in several additional branches of the Services sector, and better illustrated investment pairs of "small" CIS countries), it inevitably distorted some EDB MMI structural parameters, such as the number of deals.

Inasmuch as the exchange rates of the Russian rouble and most other national currencies of CIS countries have declined significantly over the last several years², a threefold reduction of the threshold for inclusion in the EDB MMI database did not result in any noticeable increase in the number of recorded deals.

² On December 31, 2008, the RUB/USD exchange rate was RUB 29.3804 for USD 1.00; by the end of 2020, it increased by a factor of 2.5 to RUB 73.8757 for USD 1.00.

The OKVED classification is now used to describe the sectoral structure of FDI in the EDB MMI database. That Russian classification fully corresponds to international standards used to describe sectoral affiliation of projects (with a number of insignificant exceptions). The EDB MMI uses its codes down to the second digit.

Prior to that, the database used a proprietary two-level sectoral classification. At the second level, it yielded a more accurate picture of the structural characteristics of investment flows in the post-Soviet area. The OKVED has its disadvantages. For example, the use for the purposes of FDI analysis of three different OKVED codes (45–47) for wholesale and retail trade complicates classification of distribution subsidiaries traditionally used by direct investors, concurrently lumping together such capital investments with FDI made by specialised trade companies, such as chain stores. Those details had to be sacrificed to enable unification with the generally recognised classification.

The current version of the EDB MMI database uses a somewhat more complex unified system of indicators to describe the role of the state and third-country TNCs in the ownership structure of investor companies. Those indicators are as follows:

- P [private] — private investors own 100% of the investor company;
- S [state] — the state owns 100% of the investor company;
- SC [state control] — the state has the controlling stake (>50%), but does not fully own the investor company (this makes it possible to single out large companies that seek to distance themselves from the state, emphasizing their status as open (public) joint stock companies on the one hand, and to show that the company has private co-investors, on the other);
- SS [state stake] — the state has a stake in the direct investor, but does not hold the absolute majority (i.e., it owns 10.0–49.9% of the investor company's shares or units);
- IC [investor control] — the company has a controlling investor which is a third-country TNC (but the investor does not fully own the company, because in that case, according to EDB MMI database rules, the actual investor is definitely located outside of the 12 post-Soviet countries under review); the record contains data on the actual foreign investors rather than formal offshore owners;
- IS [investor stake] — a foreign TNC has a stake in the direct investor, but does not hold the absolute majority (i.e., it owns 10.0–49.9% of the investor company's shares or units);
- several combinations illustrating participation of the state and foreign direct investors, primarily "SCIS" [state control + investor stake] — the state owns the controlling stake, but some of the direct investors are foreign companies (example: Rosneft).

The classification of FDI forms was simplified, and reduced to four:

- "purchase" — no significant reinvestment, although asset revaluation is possible (based on depreciation of equipment, changes in the value of real properties, fluctuation of exchange rates, etc.);

- “purchase with expansion” — the original asset acquisition was supplemented with significant reinvestment in modernisation or territorial expansion, or with additional acquisitions of new blocks of shares or production facilities (consolidated into the company);
- “greenfield” — some “greenfield” projects are not expanded at later stages, but occasionally significant additional investments are made in subsequent years; information on such expansion can be derived from changes in FDI stock from year to year;
- “other” — as a rule, these deals are associated with privatisation after the dissolution of the USSR, when the asset was originally managed by a body from another Union republic (for example, Uzbekistan’s resort in the Russian city of Kislovodsk with FDI stock of USD 4–5 million was established in 1932 and used for rest and relaxation of officials and other individuals from the Uzbek SSR; currently it is owned by AO Uzbekiston, a company operating under the aegis of the Main Health Care Department under the Administration of the President of the Republic of Uzbekistan).

The remaining database parameters did not undergo any substantial changes. All FDI stock values are converted into US dollars at the exchange rate published by the central (national) banks as of 31 December. OECD and IMF recommendations on FDI stock measurement for non-financial companies are supplemented by the non-current assets valuation method developed before 2017. This is particularly relevant for countries with underdeveloped stock markets, as a tool for the assessment of profits reinvested (or, conversely, of depreciation of capital previously invested) in projects owned by the same investor over many years. For banks and insurance companies, the main FDI assessment indicator is the amount of equity, although in some cases researchers have to make do with charter capital information, which may result in an understatement of the amount of FDI (in practice, this applies to small banks, and it has little material impact on common country-level indicators).

Still, the authors (and, before them, many experts working for well-known analytical think tanks and the leading business media), to the extent possible and acting in full compliance with OECD and IMF recommendations, measure deal values by comparing them to similar recent acquisitions in the relevant country/sector. In some cases, the company discloses the true value of the deal a couple of years later, and then our estimates are adjusted. Another reason for adjustment is related to the use of news reports on investment plans, particularly those with extensive (5–10-year) investment timeframes. Unfortunately, the media and (after them) serious analysts occasionally reprint such announcements for years, changing only dates and presumed increases of the amount of capital investments. In practice, however, the projects so announced can be mothballed, which in the absence of field research may be learned only much later. Unlike the aforementioned *Financial Times* database and several other respected sources, the EDB MMI verifies old information on announced FDI on an annual basis.

It should also be noted that we have embarked on a project to systematise information on “green economy” projects, although it should be recognized that mutual direct investments in such projects in the post-Soviet area are still scarce. The main accent is on renewable energy, while waste processing and “green finance”, for example, still have little appeal for mutual FDI participants in the EAEU or the CIS as a whole.

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Macroeconomic Review (RU)

A regular EDB publication, which provides a timely overview of the current macroeconomic conditions in the EDB member states and estimates their development in the short-term perspective.



Macroeconomic Forecast (RU/EN)

The Return of Inflation: For How Long and Should We Fear It?

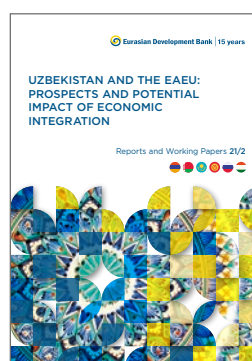
The 2021 projection for aggregate GDP growth of EDB member states is raised by 0.7 p.p. to 4% due to strong support from the global economy.



Report 21/1 (RU)

Promoting the Role of the EAEU Currencies in Global Transactions

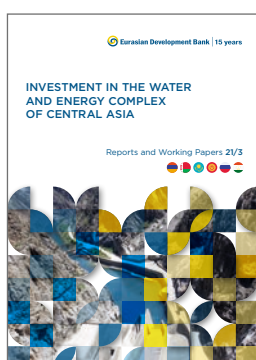
EAEU currencies service around 2% of global trade. As for the EAEU countries, payments in their currencies have notably increased over the past seven years — their share in trade flows jumped from 63% in 2013 to 74% in 2019.



Report 21/2 (RU/EN)

Uzbekistan and the EAEU: Prospects and Potential Impact of Economic Integration

The report estimates the potential effects of Uzbekistan's integration with the EAEU and outlines promising areas for cooperation between the current Union member states and Uzbekistan.



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Working Paper WP/21/2 (RU/EN)

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This study aims to contribute to understanding the potential risks and impacts of both explicit and implicit contingent liability shocks on government fiscal and debt positions in the EFSD recipient countries.



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