Eurasian Development Bank

Centre for Integration Studies

MONITORING OF MUTUAL INVESTMENTS IN THE CIS 2013

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MONITORING OF MUTUAL INVESTMENTS IN THE CIS

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The report contains new results of the joint research project of the Centre for Integration Studies of EDB and the Institute of World Economy and International Relations of the Russian Academy of Sciences. It is aimed at the maintenance and development of the monitoring database of mutual direct investment in the CIS countries and Georgia. A general characteristic of mutual investments in the CIS at the end of 2012 is provided. For the first time inter-regional contrasts are analyzed with a breakdown by mutual direct investment in three countries — Russia, Kazakhstan and Ukraine. The results of monitoring mutual investments in the CIS countries and Georgia are reviewed, which characterize investment dynamics and structure. In the light of the economic crisis in Cyprus, special attention is given to the phenomenon of the island as a terminal base for many post-Soviet multinational corporations. The impact of close integration on mutual direct investment in the emerging Eurasian Economic Union is considered separately. Methodological problems and prospects of the project are highlighted.

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ACRONYMS AND ABBREVIATIONS

CB RF — The Central Bank of the Russian Federation (Bank of Russia)

CES — Common Economic Space

CIS — Commonwealth of Independent States

CIS EDB — Centre for Integration Studies of the Eurasian Development Bank

CU — The Customs Union

EDB — Eurasian Development Bank

EIM — European Investment Monitoring

EU — European Union

FDI — Foreign direct investment

HPP — Hydropower plant

IMEMO — Institute of World Economy and International Relations, Russian Academy of Sciences

MIM CIS — Monitoring of mutual investments in the CIS countries and Georgia

OKVED — All-Russian Classifier of Types of Economic Activity

PSA — Production Sharing Agreement

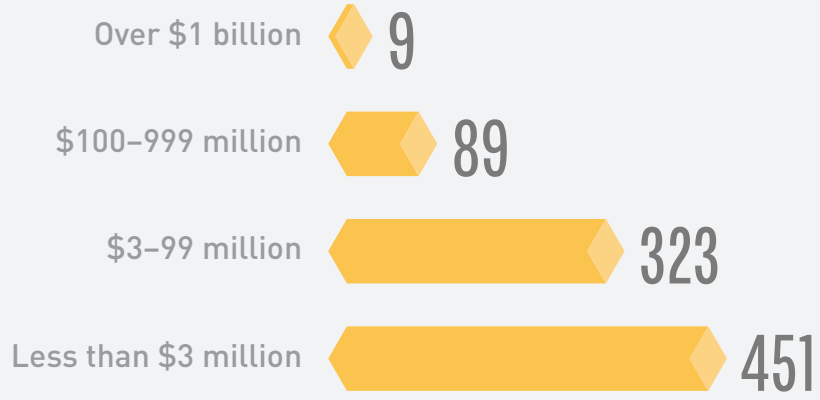
Summary

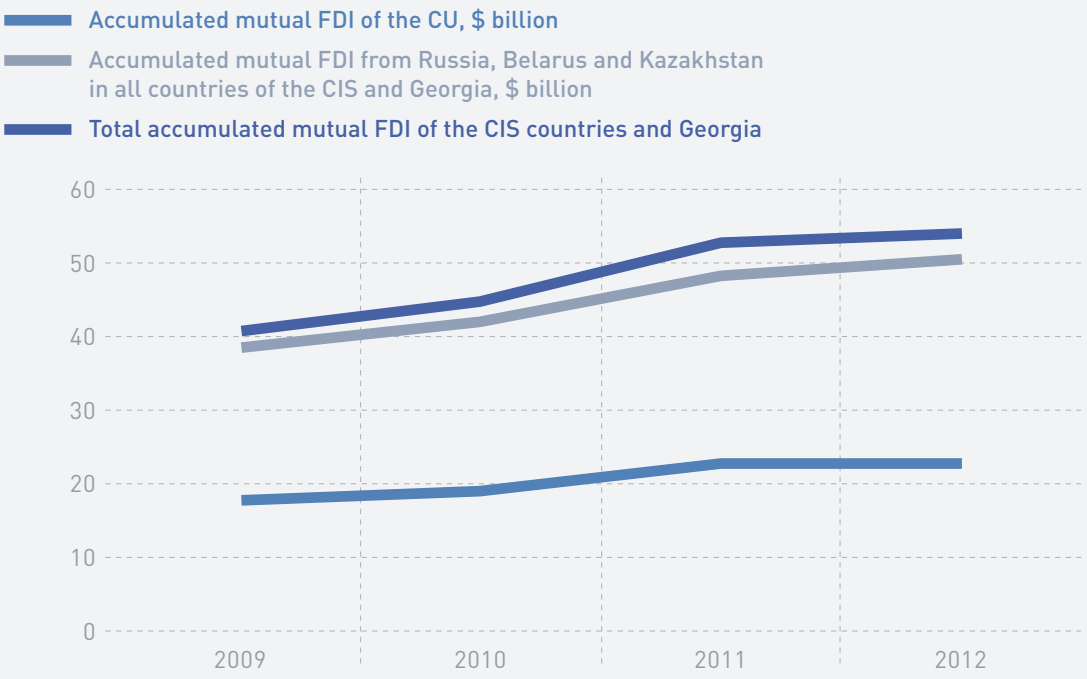
- **The total number of projects/transactions in MIM database exceeded 1,000, with 871 of them being current as of the end of 2012.** More than half of the projects are small. Nine projects with investments of more than $ 1 billion accounted for 35.8% of total mutual FDI stock in the region.
- **According to MIM CIS, by the end of 2012 accumulated mutual FDI of the CIS countries and Georgia amounted to nearly $ 54 billion, an increase of 32% over three years.**
- **The countries of the Customs Union retain leadership in accumulated mutual investments in the CIS, but the intensity of mutual investment links within the CU can be increased, including in the context of contribution of three economies in the total GDP of the CIS: $ 22.7 billion, or 42% of the total amount of accumulated mutual FDI in the region, with 87% of CU GDP in GDP of the CIS.**

This is largely as a consequence of the investment activity of Russian multinational corporations. The FDI dynamics between Kazakhstan and other countries over the past two years were determined by multi-directional trends. In 2010 post-crisis recovery started in the most of the CIS countries. This led to an increase in investor interest for recovery of old projects, and development of new projects. An additional incentive for mutual investment (especially in manufacturing industry) was the creation of the Customs Union in 2011. However in 2012 the countries of the region suffered deterioration of the macroeconomic situation; and the majority of enterprises became more wary of the projects that required long term implementation and considerable investment.

- **In comparison with the official statistics, MIM CIS indicators are significantly larger. The gap is especially evident when considering the Russian FDI stock** — as leading national investors usually publish detailed financial statements (i.e. the

Distribution of MIM CIS projects by FDI stock as of the end of 2012 (without projects where the data are absent)





Comparison of mutual investments of CU and the entire CIS region and Georgia

majority of transactions are included in the analysis), but often make investments in other CIS countries through third countries.

- **Russian companies still dominate among investors of the CIS countries**. At the end of 2012, Russian investors accounted for 82.7% of the accumulated volume of mutual FDI. They have carried out most of the biggest transactions.

Country	FDI stock, $ billion (CB RF data)		FDI stock, $ billion (MIM CIS data)	
	01.01.2012	01.01.2013*	01.01.2012	01.01.2013
Total, CIS and Georgia	15.3	17.7	42.2	44.5
Belarus	4.6	5.1	7.3	7.5
Ukraine	4.4	5.1	14.9	16.7
Kazakhstan	2.5	3.3	10.7	10.5
Armenia	1.4	1.5	1.9	1.9
Uzbekistan	0.9	1.0	3.6	3.9
Tajikistan	0.6	0.7	0.9	1.0
Moldova	0.4	0.5	0.5	0.5
Georgia (excluding Abkhazia and South Ossetia)	0.2	0.3	0.4	0.4
Kyrgyzstan	0.2	0.2	0.6	0.7
Azerbaijan	0.1	0.0	1.4	1.4
Turkmenistan	0.0	0.0	0.0	0.0

– Russian outward FDI stock by countries: CB RF and MIM CIS data

* Preliminary estimate is received by adding to the data at the beginning of 2012 the data about net inflows in 2012, published by the Central Bank of the Russian Federation on June 11, 2013.

Country structure of projects with direct investments in the CIS countries and Georgia at the end of 2012 in the database of MIM CIS

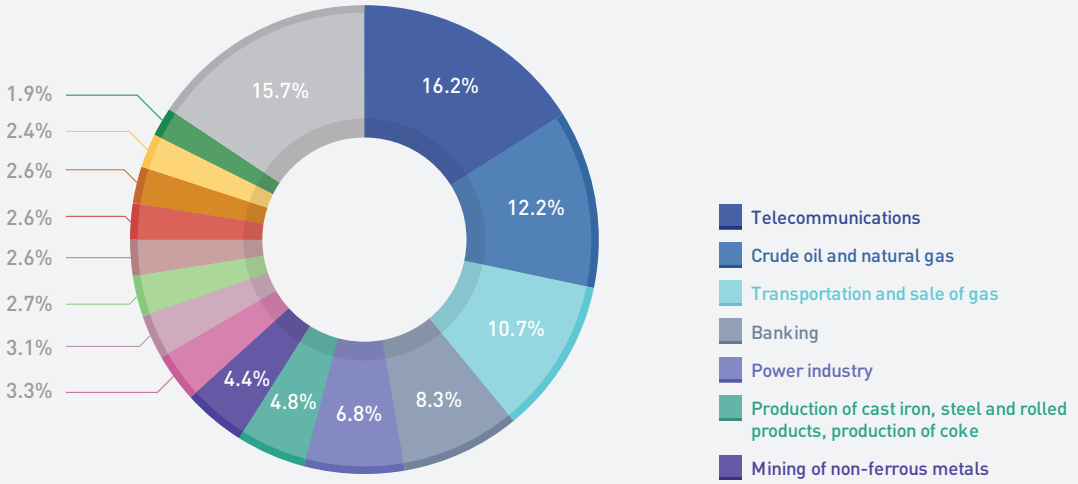
Investor Country	Total number of projects	Number of projects with direct investment of $ 100 million and more	Number of projects with direct investments of less than $ 3 million	Total direct investment, $ billion
Total, 12 countries	871	98	451	53.87
Russia	455	71	139	44.51
Kazakhstan	53	16	4	5.61
Ukraine	27	7	4	1.57
Azerbaijan	15	4	0	1.55
Belarus	300	0	293	0.40
Other	22	0	11	0.23

Russian multinational corporations largely determine the industrial structure of mutual FDI in the region and in particular within the three CU countries. Telecommunications was the leading sector in total mutual FDI in the CIS and Georgia, accounting for 16% of the accumulated amount of FDI. Crude oil and natural gas, as well as transportation and sale of gas, account for 10%. This is followed by banking and the power industry. In the three CU countries, transportation and sale of gas ranks first due to Russian FDI in Belarus. The production of crude oil and natural gas, and mining of non-ferrous metals, ranks second due to the considerable Russian FDI in Kazakhstan. There are few industries whose high positions are not determined by the activity of Russian investors, but the companies are from other CIS countries. Due to Azerbaijani FDI in Georgia rail transport can be identified; and Kazakhstan investment in hotels and construction projects can be noted in the CU.

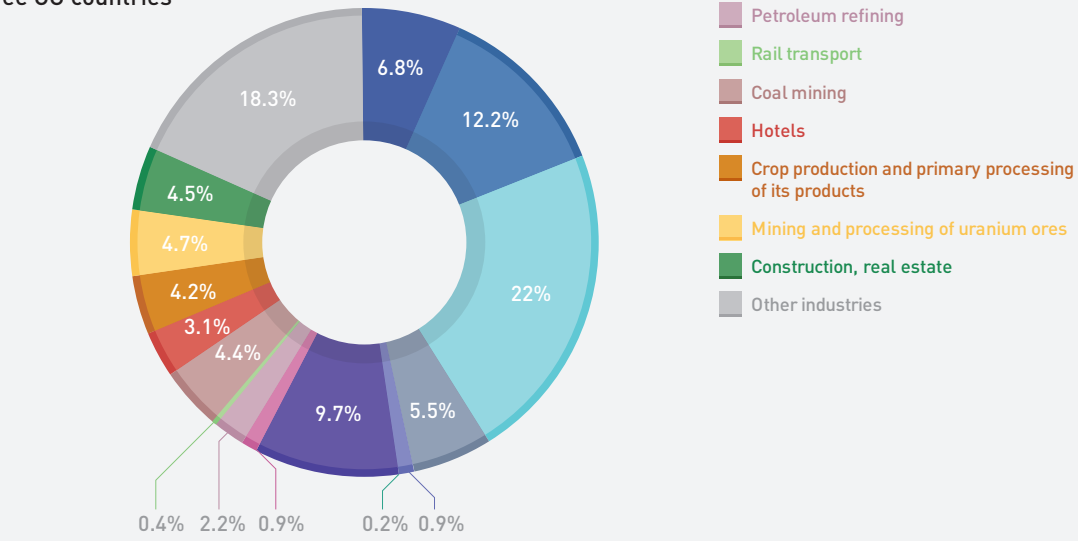
- **In Russia, the projects reflected in the MIM CIS database are located in 53 of the 83 regions of the Russian Federation. However, 33% of the $ 6.1 billion of FDI stock of the CIS and Georgia was concentrated in Moscow and Moscow Region at the end of 2012, another 12% in Krasnodar Region, and 10% in Kursk Region.** One of the areas of analysis within the framework of MIM CIS at this stage was associated with the study of regional contrasts in the distribution of mutual FDI in Russia, Kazakhstan, Ukraine and some other countries in the region.
- **Geography of FDI from the CIS countries was the most diversified in Kazakhstan where**, oil, gas and metropolitan areas are significant but do not dominate. It should be noted that part of FDI has not yet been precisely tied to a specific region: for example for offshore production projects, and financial and telecommunications companies registered in Almaty with investments across the country.
- **Data analysis of MIM CIS has once again confirmed the disproportionate role of offshore companies in the geographical structure of exports and imports of FDI in the CIS countries**. Emphasis on Cyprus was particularly risky for Russia and Ukraine. Cyprus is gradually being replaced by other offshore companies in transshipping FDI, as well as by more reputable jurisdictions in the EU.

Industry structure of mutual FDI, end of 2012

CIS and Georgia

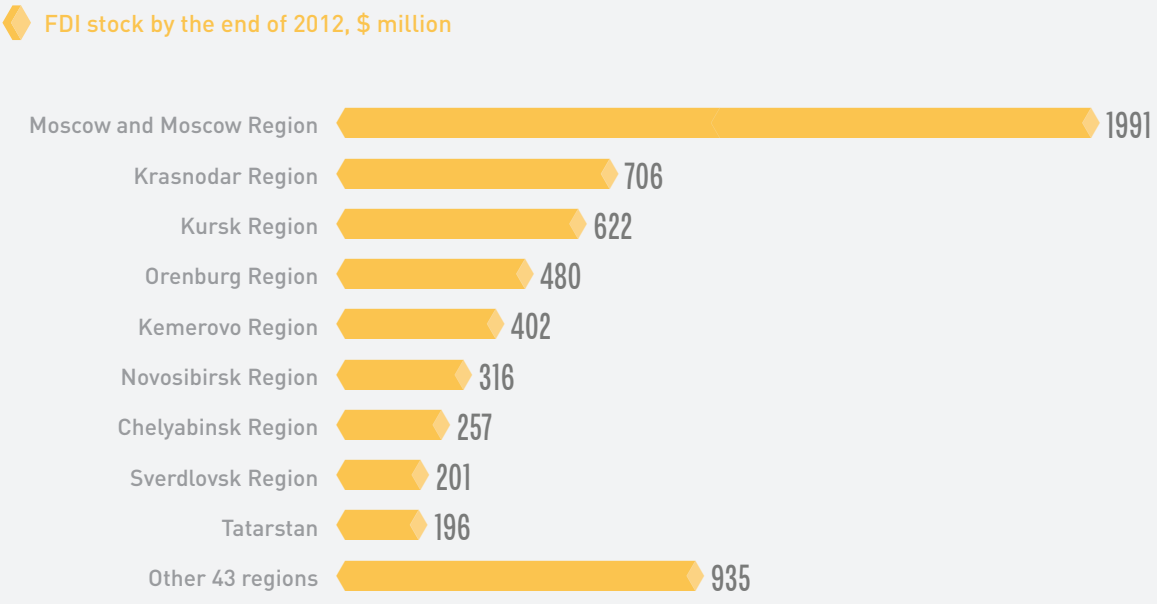


Three CU countries



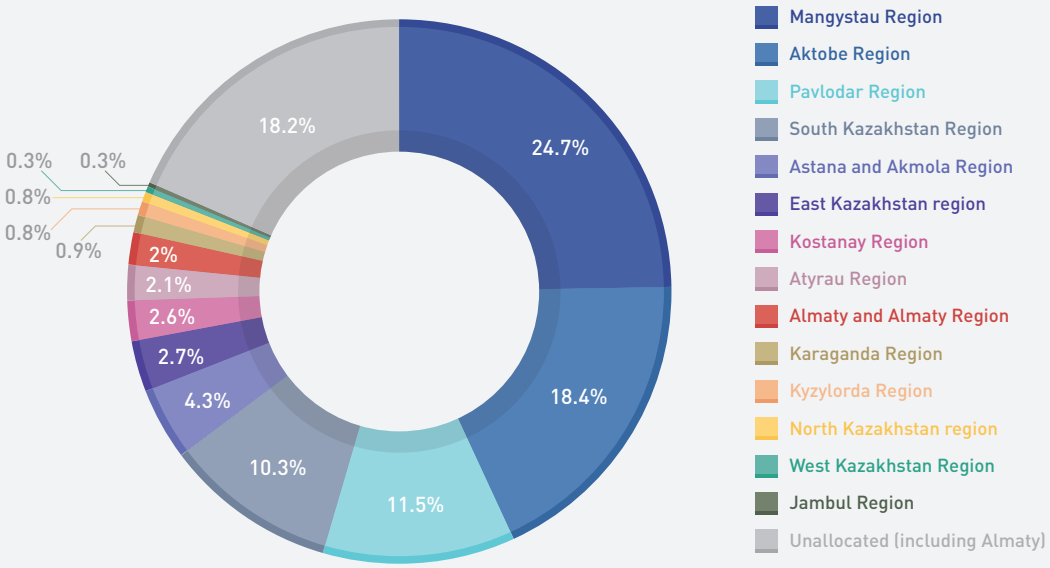
- **In 2012–2013 MIM CIS data on mutual direct investment of the CIS countries in the Ukrainian economy were revaluated as many new sources of information emerged**. This led to reconsideration of a number of previous rough estimates of the country's accumulated investment from companies from Russia and other CIS countries. In particular, the opportunity to better evaluate Russian investment in the regional electricity companies appeared.
- In the first half of 2013, new projects were added to MIM CIS database, and the indicators of the majority of the previously evaluated projects were revised. FDI statistics, particularly in the post-socialist countries, are characterized by low accuracy. The main reason is the mismatch between the basic requirements of the OECD to

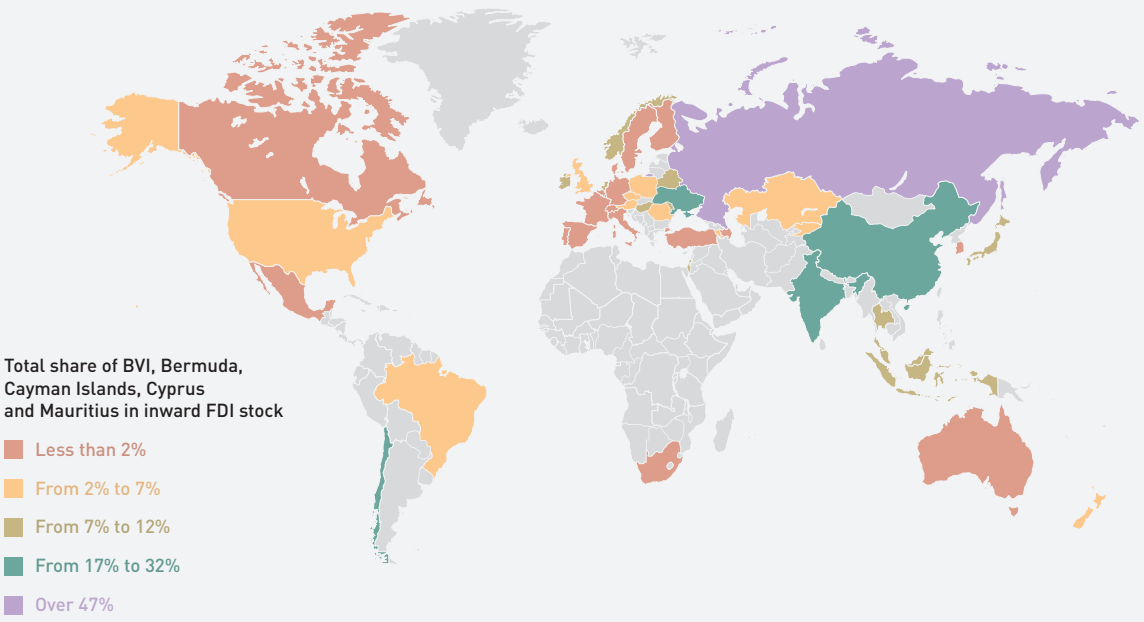
Key Russian regions receiving FDI from the CIS and Georgia



calculate the FDI stock of foreign investors using the current market value of the companies (company shares) controlled by them, in the absence of initial information on the majority of projects for each of the five assessment methods proposed by the OECD. Major revisions in MIM CIS database are associated with open publication of corporate reporting by a number of companies of the CIS countries, as well as refining information about the previously implemented FDI in the media.

Regional structure of FDI from the CIS countries in Kazakhstan in 2012





The role of the five key offshore jurisdictions in the structure of FDI stock in 40 major recipient countries of foreign investment, as well as in Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova and Ukraine

- **In addition to reevaluation of data for previous years, annual revaluation of assets is observed, due to fluctuations in currency exchange rates, depreciation of production facilities and other factors**. The value of long term assets of leading multinationals can be reduced by tens and hundreds of millions of dollars in the course of normal operation of companies previously created or purchased in other CIS countries. This is shown by the example of Russian FDI in Ukraine.
- **The emergence of new information does not always eliminate problems with the assessment of FDI, especially when major real estate projects are resold**. For ex-

Assets of the regional electricity companies in Ukraine controlled by Russian investors

Company	Investor	Share in 2012 %	Long-term assets (by Russian share), $ million		
			2010	2011	2012
Total, controlled by Russian investors			1112	1374	1724
Lugansk Energy Association	Energy Standard	100	292*	311*	331*
Odessaoblenergo	VS Energy	65.8	139	206**	313
Zhitomiroblenergo	VS Energy	91.6	115	247**	268
Kirovogradoblenergo	VS Energy	93.4	110	134**	157
Poltavaoblenergo	Energy Standard	72	75	72	96
Kharkivoblenergo	Energy Standard	37	93	90	89
Other 13 (two more companies acquired in 2013 and three sold in 2010)	Same two investors	…	288	314	470

* — financial statements are not published; the amount of annual investment programs and very approximate cost of initial purchase is known ($ 200 million).

** — In 2012 the figures for 2011 were changed, according to previous reports — only $ 140 million, $ 116 million and $ 96 million respectively

Revaluation of a number of major projects in Ukraine in the annual accounting statements of the top Russian multinationals

Investor	Investment object	Non-current assets, $ million				
		2008	2009	2010	2011	2012
Sistema	«MTS Ukraine» and other telecom-related assets	1677	1512	1281	1046	784
Evraz	«Evraz Petrovsky DMZ» and its associated factories and mines	1344	1020	892	759	668
Mechel	«Donetsk Steel Mill»	–	–	–	537*	422*
TNK-BP	Lisichanskiy refinery and petrol station network	256	296	558/377**	509/415**	256
RUSAL	«Zaporozhye Aluminum Plant» and «Nikolaev Alumina Refinery»	…	241	270	274	239

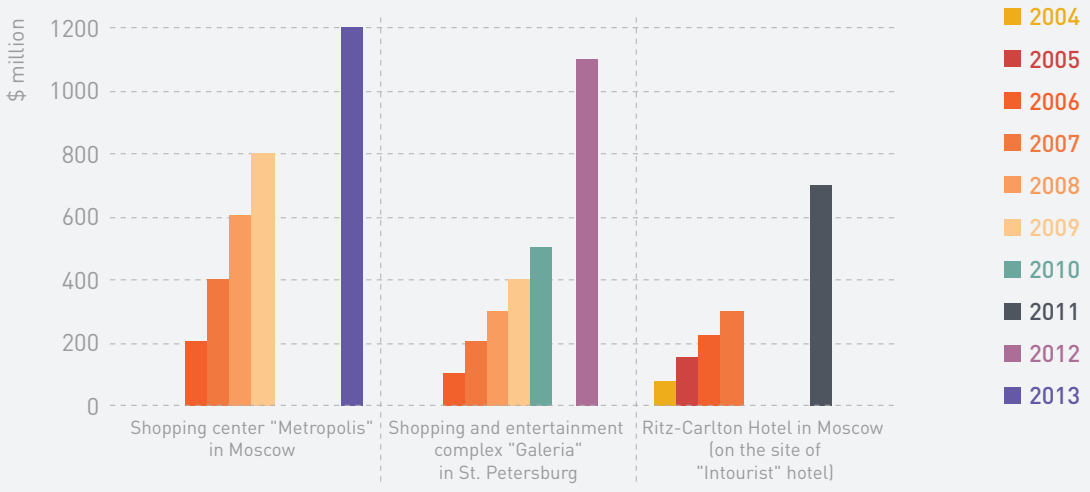
* — Only direct investment, as transaction was executed in December 2011

** — The data in the financial report 2012

ample, in 2011–2013, Kazakhstan investors resold several shopping, entertainment and hotel complexes in Moscow and St. Petersburg for a price far greater than the investments that were previously taken into account as FDI

- **The discrepancy between the data of MIM CIS and official statistics is often due to differences in methodology.** In particular, CIS MIM accounts an investment by the final state-recipient, whereas the Central Bank of the Russian Federation accounts the first country that received the investment. International comparisons of the leading multinationals account all foreign assets, and only of large companies; while MIM CIS estimates only long-term assets, but for all types of investors.

Growth of FDI stock during construction and consequent resale price of the major projects of Kazakhstan investors in Russia



	A	B	C	D	E	F	G	H	I
1	Страна-инвестор	Отрасль инвестирования	Компания-инвестор	Страна-получатель ПИИ	Регион-получатель ПИИ (для 5 стран)	Объект инвестирования	Характер инвестиций	Год начала проекта (годы реализации для завершенных)	Стоимость на конец 2012 г., млн. долл.
105	Россия	Производство электротехники и электроники	Ситроникс	Армения	-	100% ЗАО "Ситроникс-Армения"	с нуля	2009	10
106	Россия	Производство транспортных средств кроме автомобилей	ЗАО "Гранд Экспресс" (Михаил Рабинович)	Беларусь	Могилевская область	74% в СЗАО "Осиповичский вагоностроительный завод"	с нуля	2008	83
107	Россия	Производство электротехники и электроники	Газпром	Беларусь	Брестская область	51% в СП ОАО "Брестгазаппарат"	приватизация, расширение	1994	50
108	Россия	Производство станков и оборудования	Группа ГМС	Беларусь	Могилевская область	57% в ОАО "Бобруйский машиностроительный завод"	покупка	2011	10
109	Россия	Производство станков и оборудования	Группа ГМС	Беларусь	Минская область	ОАО "Завод Промбурвод"	покупка	2008	6
110	Россия	Производство транспортных средств кроме автомобилей	РКК Энергия им. Королева	Беларусь	Минская область	70% ЗАО "БелРосСат"	с нуля	2009	1
111	Россия	Производство транспортных средств кроме автомобилей	Трансмашхолдинг	Казахстан	Астана и Акмолинская область	50% АО "Локомотивосборочный завод"	покупка	2012	60
112	Россия	Производство транспортных средств кроме автомобилей	Трансмашхолдинг	Казахстан	Астана и Акмолинская область	25% в ТОО "Электровоз курастыру зауыты"	с нуля	2010	17
		Производство			Астана и				

A screenshot from MIM database (9 columns of 17)

Introduction

The report reflects the results of the next phase of the partnership project of the Centre for Integration Studies of EDB and IMEMO RAS for further development of the monitoring database of mutual direct investment in the CIS countries and Georgia. The results of previous steps are shown in the respective reports (EDB Centre for Integration Studies, 2012; EDB Centre for Integration Studies, 2013), as well as in scientific articles prepared on the basis of the project (see Annex).

The presented report consists of three main parts. The first part contains a general description of the database at the end of 2012, which allows a comparison with previously published information on FDI.

Since few new projects were registered in 2012, the database was expanded mainly due to the opened information on previously concluded transactions. Analysis of the statistics of mutual FDI went "deep", and the first part of the report is concluded by an example of this. It related to consideration of inter-regional contrasts in the distribution of investment in large and medium-sized countries of the CIS.

The second part of the report addresses new findings of MIM CIS characterizing the dynamics and structure of FDI in the region under review. The analysis begins with the study of the phenomenon of Cyprus as a terminal base for many post-Soviet multinational corporations. The urgency of this issue has escalated in the light of the economic crisis on the island, and quite radical actions on the part of the state and the EU to arrest it.

Special attention is paid to the influence of close integration in the emerging Eurasian Economic Union on mutual FDI and, especially, to attracting investments in Kazakhstan. At the same time the situation with mutual FDI in Ukraine by the CIS countries and Georgia is shown.

However, it must be emphasized that the recently observed divestments of some Russian multinationals is not always linked to the refusal of Ukraine for early accession to the Customs Union of Russia, Belarus and Kazakhstan.

The third part analyzes the methodological problems that have not been adequately addressed in previous publications. First of all, the reasons are explained for the inevitable revision of quantitative estimates for earlier implemented investment projects already included in the MIM CIS database.

Further the problems of comparability of our estimates with other sources of information are considered, namely with official statistics and the results of other projects studying direct investment of companies from the CIS countries. In addition, international experience of monitoring mutual investments is considered in more detail than in 2012, with a view to developing recommendations to further improve the MIM CIS project.

1. Specifics of MIM CIS database

Since the publication of the first annual report (EDB Centre for Integration Studies, 2012), the MIM CIS database has expanded by almost half, passing the significant threshold of one thousand transactions. The database has increased due to revealing the phenomenon of FDI through distribution networks (EDB Centre for Integration Studies, 2013) and the inclusion of a few new projects (for example, seven new transactions have been recorded in 2013). In addition, the regional binding of projects in the major countries of the CIS was improved, missing transactions were clarified and identified (for example, the structures of Kazakh businessman M. Ablyazov in Russia were considered in more detail due to their elimination after a public trial). It was decided not to perform another large-scale expansion at the expense of small transactions (as occurred in the second half of 2012, when the information on the Belarusian enterprises of the distribution network was added to the database). But there is a potential for this — for example it is possible to account investments of Armenian and Azerbaijani investors in different countries of the CIS (but it is unclear whether they have the nationality of the recipient countries).

As a result, as of mid-2013 the MIM CIS database contains information on 1,030 transactions/projects, including 87 completed by the end of 2012. In 65 transactions, information about the amount of FDI stock in the database is still not provided. These are either projects tied to larger transactions, or investments in partially recognized state formations within the post-Soviet space, or foreign assets of the regional subsidiaries of Western European multinationals in the CIS countries. Thus, MIM CIS database contains information (with at least an estimate) on accumulated investments at the end of 2012 for 871 mutual FDI transactions/projects.

1.1. General characteristics of the structure of mutual FDI in the CIS

A key role in mutual FDI in the CIS is played by Russian companies. At the end of 2012, they accounted for 82.7% of the FDI stock. 71 projects out of 98 were Russian, with FDI of $ 100 million or more (see Table 1). It should be noted that some of the projects previously entered to MIM CIS database were “unbundled” due to separate accounting of FDI by regions of large and medium-sized CIS countries. These were mainly Russian projects generally in wholesale and retail trade — petrol stations and chain stores.

Kazakhstan ranks second in terms of the highest total volume of FDI in other CIS countries and the number of large investment projects. A significant role is also played by Ukraine and Azerbaijan. They are followed by Belarus and Georgia. In 2012 the scale of Georgian outward FDI stock decreased significantly. The value of the remaining CIS countries in mutual FDI remains insignificant. The presence of Moldova, Tajikistan, and Turkmenistan in the MIM CIS database as a source of capital is explained only by consideration of FDI projects below the threshold that we set for mandatory analysis, equal

Table 1 — Country structure of projects with direct investments in the CIS countries and Georgia at the end of 2012 in the database of MIM CIS

Investor Country	Total number of projects	Number of projects with direct investment of $ 100 million and more	Number of projects with direct investments of less than $ 3 million	Total direct investment, $ billion
Total, 12 countries	**871 (1 — two countries)**	**98**	**451**	**53.87**
Russia	455	71	139	44.51
Kazakhstan	53	16	4	5.61
Ukraine	27	7	4	1.57
Azerbaijan	15	4	0	1.55
Belarus	300	0	293	0.40
Georgia	8	0	2	0.14
Kyrgyzstan	3	0	1	0.04
Uzbekistan	2	0	0	0.03
Armenia	4	0	3	0.02
Moldova	3	0	3	0
Tajikistan	1	0	1	0
Turkmenistan	1	0	1	0

to $ 3 million

Belarus has the largest number of small projects. In part, this is due to the increased attention that has been given by us to the Belarusian foreign distribution network. Foreign investment activity of Belarusian companies has long been poorly covered in scientific literature. At the same time, over the last decade there is a clear trend towards an increase in the total number of enterprises with Belarusian capital. This contradiction is explained by the fact that the vast majority of Belarusian direct investments is made by state exporting companies, and is not aimed at the establishment of production abroad, but in contrast, at promotion of Belarusian goods in neighboring countries.

Among the state corporations and agencies (including ministries, provincial and municipal executive committees) the Ministry of Industry has the largest number of distribution network entities. It manages around the world, but mainly in the CIS countries, 120 distribution enterprises with Belarusian investments. The second, third and fourth places are held by «Bellegprom», «Belneftekhim» and «Bellesbumprom». A significant role is played by «Belgospishcheprom» and the Ministry of Architecture and Construction. Among particular enterprises, the largest number of distribution network entities in the CIS countries was created by BelAZ (27), Minsk Tractor Works (17), woodworking holding «Pinskdrev» (15), textile factory «Mogotex» (10), automobile tires manufacturer «Belshina» (10) and Minsk Automobile Plant (MAZ). However, these figures should not be misleading, since the distribution network entities are very different from each other both in terms of the scale of operations and in terms of efficiency.

The 2008 global economic crisis not only failed to slow down, but, on the contrary, ac-

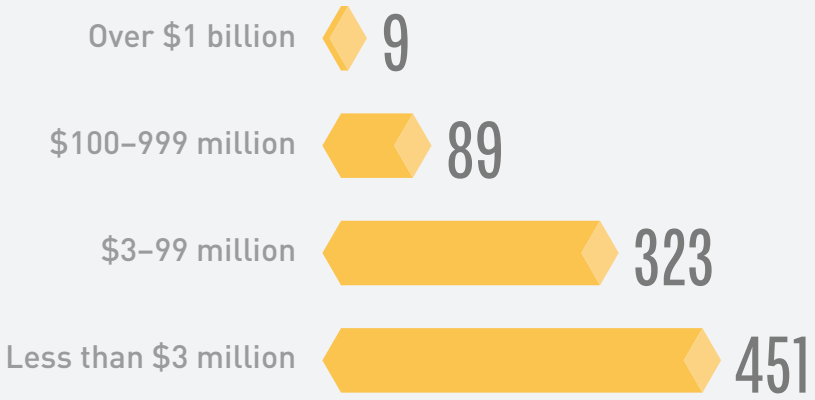


Figure 1 — Distribution of MIM CIS projects by FDI stock as of the end of 2012 (without projects where the data is absent)

celerated the expansion of the distribution network of Belarusian companies. However, the geography of the distribution network has changed. Reduction in trade with Russia forced the Belarusian exporters to pay attention to other markets; and in 2009–2012 the

Table 2 — Major investment projects in MIM CIS database at the end of 2012

Company	Home country and investment industry	Recipient country and project	FDI size estimate, $ million	Project start year	Nature of the project
Gazprom	Russia, gas transportation and sale	Belarus, «Beltransgaz	5000	2007	Purchase in several stages
VimpelCom	Russia, telecom	Ukraine, «URS» and other assets, merged later	3671	2005	Purchase, expansion
Lukoil	Russia, production of crude oil and natural gas	Kazakhstan, participation in a number of PSA projects	2611	1995	Multiple purchases, expansion
Lukoil	Russia, production of crude oil and natural gas	Uzbekistan, PSA project Southwestern Hissar	2098	2008	Purchase from Russian investor, expansion
Mechel	Russia, production of non-ferrous metals	Kazakhstan, «Voskhod chrome»	1660	2008	Purchase
MTS	Russia, telecom	Ukraine, «MTS Ukraine»	1290	2003	Purchase, expansion
Capital Partners	Kazakhstan, construction, real estate	Russia, shopping centre «Metropolis»	1000	2006	Greenfield project, sold in 2013
RUSAL	Russia, coal production	Kazakhstan, 50% in LLP «Bogatyr Coal»	1000	2007	Result of merger
VEB	Russia, production of cast iron, steel and rolled products; coke production	Ukraine, 50% of the corporation «Industrial Union of Donbass»	1000	2010	Purchase, non-core asset
VimpelCom	Russia, telecom	Uzbekistan, «Unitel»	861	2006	Purchase, expansion

Table 3 — Leading industries receiving direct investment in MIM CIS database at the end of 2012

Investment industry	Direct investments of Russia, $ billion	Direct investments of other countries of the CIS and Georgia, $ billion	Mutual direct investments of CU countries, $ billion	Direct investment in total, $ billion
Telecommunications	8.64	0.09	1.55	8.73
Crude oil and natural gas production	6.60	0.00	2.77	6.60
Transportation and sale of gas	5.62	0.13	5.00	5.75
Banking	4.09	0.36	1.24	4.45
Power industry	3.64	0.00	0.20	3.64
Production of cast iron, steel and rolled products, production of coke	2.59	0.00	0.04	2.59
Mining of non-ferrous metals	2.37	0.01	2.21	2.38
Petrol stations	1.55	0.25	0.21	1.80
Oil refining	1.65	0.00	0.50	1.65
Rail transport	0.30	1.13	0.09	1.43
Coal production	1.00	0.40	1.00	1.40
Hotels	0.60	0.78	0.70	1.38
Crop production and primary processing of crop products	0.10	1.21	0.95	1.31
Mining and processing of uranium ore	1.28	0.00	1.07	1.28
Construction, real estate	0.03	1.00	1.02	1.03
Other industries	4.46	3.99	4.15	8.45

growth of the number of distribution companies was carried out largely at the expense of other countries of the CIS.

In general, just due to the detailed consideration of the Belarusian distribution network in the MIM CIS database more than half of the projects were referred to the category of small (see Figure 1). With that, the database includes a large number of other projects with small capital investments, which are important for characteristics of mutual FDI in the CIS countries — for example, dozens of branches of Russian universities.

At the same time, nine projects have attracted more than $ 1 billion. They account for $ 19.3 billion of mutual direct investment accumulated in the region at the end of 2012 (see Table 2). Thus, the share of 1% of the projects of MIM CIS database in FDI stock is 35.8%. Almost all the major transactions were carried out by Russian investors. The only Kazakh project ranking among the top ten is the construction of shopping centre Metropolis in Moscow by Capital Partners group, but in 2013 the property was sold to an American investor.

Russian multinational corporations also largely determine the industry structure of mu-

tual FDI (see Table 3). Telecommunications was the leading sector, accounting for 16% of FDI stock. The share of production of crude oil and natural gas, as well as transportation and sale of gas is more than 10%. This is followed by banking and electricity.

However, there are a few industries whose high positions are determined not by the activity of Russian investors, but by companies from other CIS countries. Firstly there is rail transport due to Azerbaijani FDI in Georgia. Crop production should also be noted including elevator facilities and primary processing of crop products — this is mainly due to investments of companies from Kazakhstan and Ukraine in Russia.

Rather significant differences can also be noted in the sectoral structure of mutual direct investment within the three CU countries. Relatively modest positions of the telecommunications and electricity industries are observed against the background of the indicators common for the whole CIS region within the framework of capital movement between Russia, Belarus and Kazakhstan. Production of non-ferrous metals, crops and other industries have a much higher value.

1.2. Inter-regional contrasts in distribution of mutual investments in large and medium-sized countries of the CIS

Within the framework of the project, the study continues of inter-regional contrasts in distribution of mutual FDI in the CIS countries. During the previous stage of the project, the attraction of investments in Ukraine towards the eastern regions was examined (EDB Centre for Integration Studies, 2013). In this stage, the focus was given to Russia and Kazakhstan.

1.2.1. The most attractive regions of Russia for FDI from the CIS

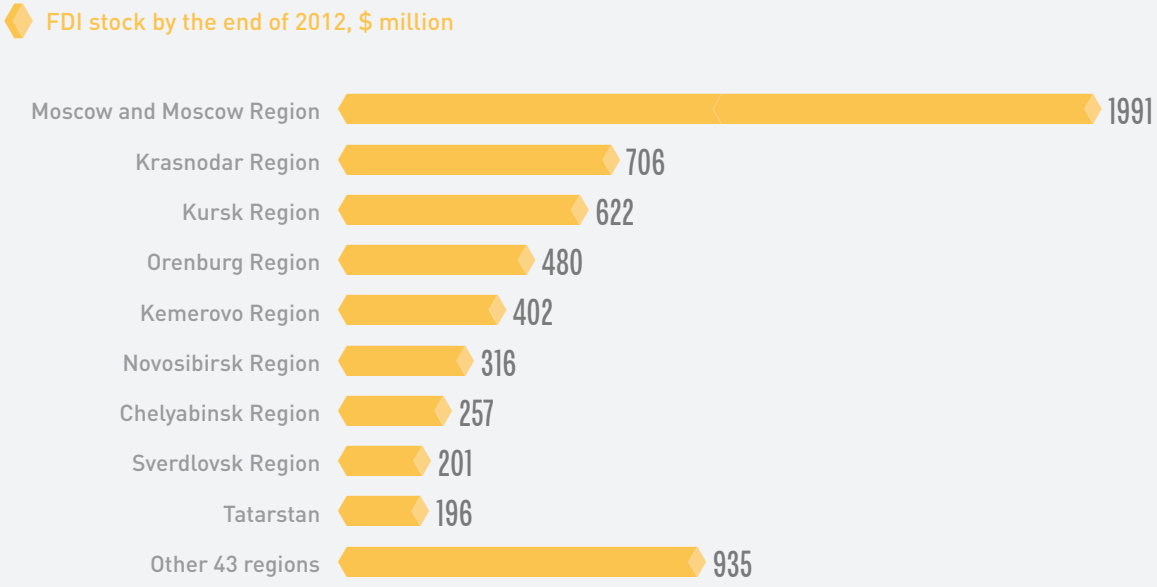


Figure 2 — Key Russian regions receiving FDI from the CIS and Georgia

In Russia, the projects reflected in the MIM CIS database are located in 53 of the 83 regions of the Russian Federation. However at the end of 2012, 33% of the $ 6.1 billion of FDI stock from the CIS and Georgia was concentrated in Moscow and Moscow Region, another 12% in Krasnodar Region, and 10% in Kursk Region (see Figure 2).

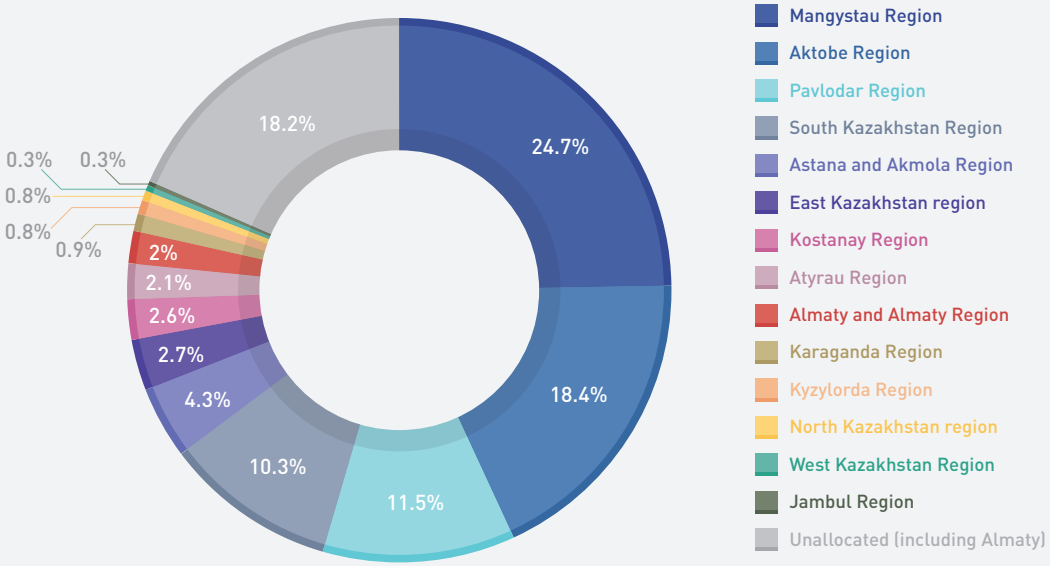
The dominance of capital in Russia is typical in FDI geography of companies in many countries, not just in the post-Soviet space. Only oil and gas regions are comparable with Moscow and Moscow Region on terms of investments of the leading Western multinationals. However, other industry-specific focus of the CIS countries determines other geographic priorities. For example, Kursk Region stands out due to investments in agriculture and food industry.

1.2.2. Distribution of FDI from CIS countries by regions of Kazakhstan

When compared with Russia, the geography of FDI from the CIS countries in Kazakhstan was more diversified. This is largely due to the activity of Russian multinationals. In terms of FDI from the CIS countries and Georgia, oil and gas regions stand out but do not dominate it (see Figure 3). However, it should be noted that part of FDI has not yet been precisely tied to a specific region; this includes offshore production projects, as well as financial and telecommunications companies registered in Almaty with investments across the country.

In Mangystau Region the key investor is Lukoil with its extracting assets; and in Aktobe Region the investors are the non-ferrous metallurgy companies Mechel and Russian Copper Company. The following two areas have industry specifics in terms of FDI volume: in Pavlodar Region the leading investors are Rusal, investing in coal mining, and Inter RAO UES due to participation in Ekibastuz GRES-2; and in South Kazakhstan Region Atomredmetzoloto with investments in uranium mines.

Figure 3 — Regional structure of FDI from the CIS countries in Kazakhstan in 2012



1.2.3. Specifics of regional contrasts in other CIS countries

Analysis of the data for Ukraine at the end of 2012 confirmed the conclusions based on the data for FDI at the end of 2011. Various regions of Ukraine are popular among investors in the CIS. Due to strong economic and industrial potential and the dominance of Russian investors, among the leaders were not only Kiev and the Kiev region, but also to Dnipropetrovsk, Donetsk and Lugansk regions (see Figure 4). It should be noted that the leadership of the capital Kiev is somewhat overstated, as many companies with small branches across the country (especially banks) tie all the information to their capital city headquarters. The largest recipient of investment in the west of Ukraine is Ivano-Frankivsk region — this is due to the Russian multinational corporation Lukoil.

In small countries it is often unfeasible to study regional contrasts. This is as a result of the small number of investment projects, and not the lack of conditions for regional differences. For example, in Belarus formally there is not an excessive geographical concentration of FDI, but this is only because the most significant project is an investment of the Russian Gazprom in Beltransgaz with its transit pipeline network that stretches across the country.

The dominance of the capital or presence of several comparable economic centers, the boundaries (as barrier function), or border areas (playing the role of contact territories) are just some of the specifics that can be found in almost any country with a large number of investment projects for analysis. This is evident in Georgia, where significant FDI of the CIS countries has attracted manufacturing enterprises, infrastructure facilities, and community services enterprise.

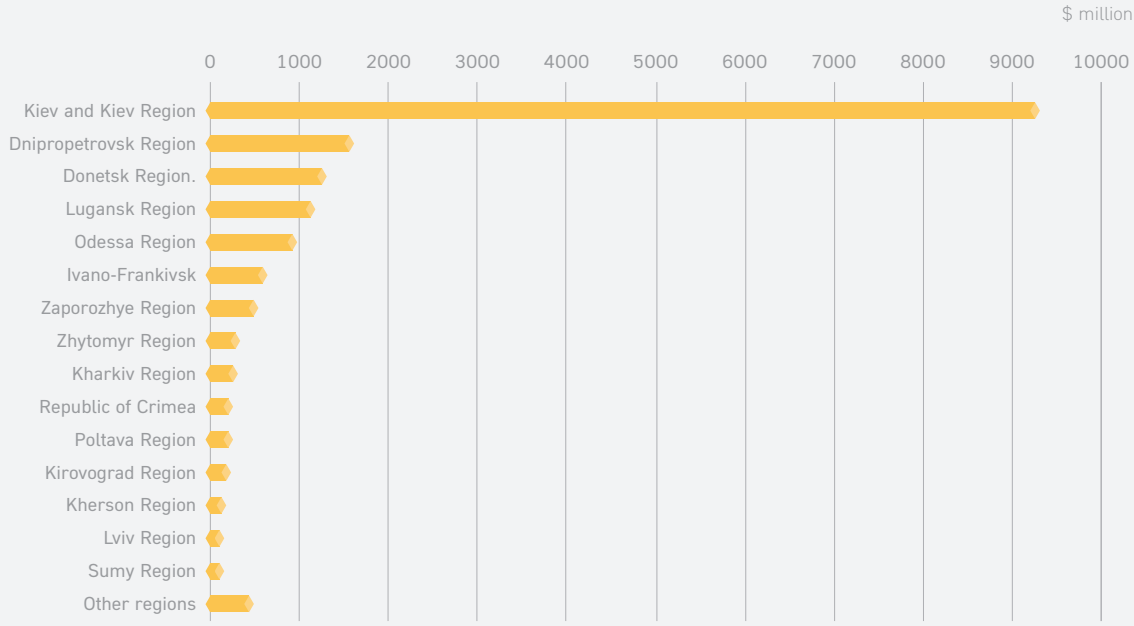


Figure 4 — Distribution of FDI stock of the CIS and Georgia in the regions of Ukraine at the end of 2012

2. New results of MIM CIS

The relatively small expansion of the database since the date of publication of the previous report (EDB Centre for Integration Studies, 2013) led to greater attention to consideration of new qualitative results of MIM CIS.

2.1. Specificity of the phenomenon of FDI carried out through third countries

MIM CIS data indicate that a significant portion of FDI of the CIS is sent to nearby states not directly, but through third-party jurisdictions. In this case, the key role is played by investments through offshore companies.

2.1.1. Disproportionate role of offshore companies in FDI structure in the CIS

The phenomenon of so-called indirect FDI, in which direct investments travel through several countries before entering the real target, is characteristic for multinationals in many countries, including highly developed ones. Experts identify at least four groups of investment projects that are not directly controlled by the parent headquarters (Kalotay, 2012):

- FDI implemented by a company that used to be an individual multinational corporation, but later became a subsidiary of a large foreign multinational;
- Large foreign multinational provides a broad autonomy for its local subsidiary up to independent foreign expansion in neighboring countries;
- Local business uses offshore companies for its FDI in order to maintain the high opacity of the company (for example, to hide the ultimate beneficiaries) and protect assets from encroachment by competitors or the State;
- There are pseudo-FDI, when the capital is just "round-tripping FDI", returning back home from offshore (although cross-border investment chains can be very complicated, and include a number of foreign jurisdictions).

The first two types of indirect FDI are almost non-relevant for the post-Soviet space, being quite transparent business strategies. One of the few examples of the first type is the Russian company Wimm-Bill-Dann, which in 2011 came under the control of Pepsi-Cola, along with all its subsidiaries in the CIS countries. A rare illustration of the second type is the brewing company Baltika, being under the control of Scandinavian investors from the very beginning, but retaining its autonomy when operating in the markets of the CIS countries.

The prominent role of offshore companies is typical both in geography of exports and imports, and country structure of FDI in the CIS countries. In the case of imports, this means that a significant portion of foreign projects is controlled by investors hiding some material information from the public. The presence of complicated offshore investment schemes is well shown by MIM CIS database, confirming the findings that can be easily made when analyzing the official FDI statistics (see Figure 5).

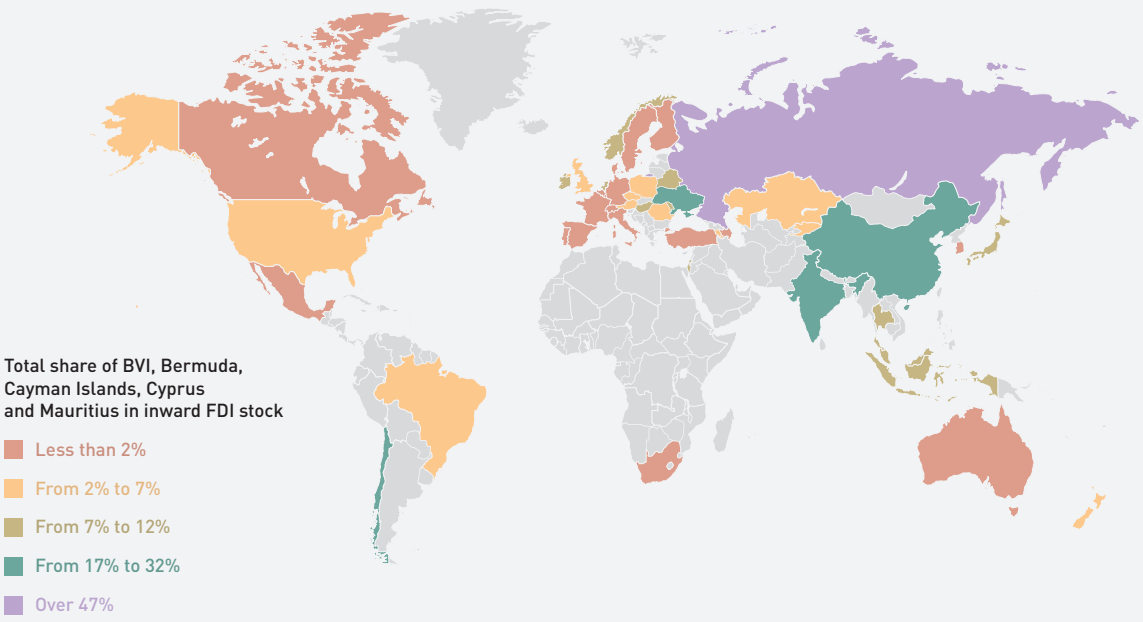


Figure 5 — The role of the five key offshore jurisdictions in the structure of FDI stock in 40 major recipient countries of foreign investment, as well as in Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova and Ukraine

Sources: Table 6-i: Inward Direct Investment Positions by All Reporting Economies Cross-classified by Counterpart Economies, as of end-2011 (http://www.imf.org); foreign direct investment (share capital) to Ukraine (http://www.ukrstat.gov.ua).

The top five global offshore jurisdictions are: British Virgin Islands, Bermuda, the Cayman Islands, Cyprus (which, in contrast to the Russian and Ukrainian multinationals is not popular among companies in most countries of the world) and Mauritius (one of the most popular offshore jurisdictions, for example, for Indian multinationals, while the CIS companies use it very rarely). We calculated the share of the top five offshores for Russia, Kazakhstan and other top 40 countries in terms of inward FDI stock (according to the IMF), as well as for a number of some other CIS countries. We excluded Luxembourg and Hong Kong from the analysis, although they are comparable with the mentioned islands. Luxembourg is used as a "white offshore" mostly within the EU, and Hong Kong controlled by China is used in the operations of Chinese companies. In other words, in both cases, there is no problem of control over FDI by politically "foreign" entities. In Russia, for example, almost half of the 50 largest national companies in terms of capital are either registered in offshore and sparring offshore jurisdictions, from where from 40 to 90% of their shares are controlled, or their profit centre or decision-making centre is located in such jurisdictions (Heifetz, 2013).

2.1.2. Cyprus phenomenon and impact of the crisis in this country on FDI in the CIS

Until 2013, Cyprus was not considered by most Russian and Ukrainian businessmen as a "foreign" jurisdiction. Companies used a variety of schemes that involved offshore and non-offshore business structures; but Cyprus had been leading as a terminal base since the beginning of the 90s. Since 1 January 2013 Cyprus has been excluded from the "offshore blacklist" of the Ministry of Finance of Russia, despite the fact that in all the years

of its existence it has been revised only once, and this was an addition (Russian Ministry of Finance, 2012).

The Russian government and business was surprised by the threat of freezing and even confiscation of Russian assets in Cyprus in March 2013. However, the crisis in the island had been maturing for a long time, based on several fundamental reasons:

- The impact of the Greek crisis (banks in Cyprus were strongly linked with Greek banks; also the inhabitants of Greece started to withdraw funds from deposits in Cyprus as a result of falling incomes);
- Abandoning the practice of "classic" offshore at the request of the EU, leading to a gradual reorientation after 2004 of many multinationals from different countries from Cyprus to other offshore companies;
- Populist policies of the Communist president D. Christofias (in power from 2008 to 2013); and
- The consequences of the explosion at the naval base Evangelos Florakis in 2011, which led to the breakdown of the largest power station in Cyprus.

In addition, there are signs that Cyprus, with its entry into the EU, was forced to abandon the position of the "classic" offshore. It was unable to compete with Luxembourg and the Netherlands as a "respectable" place for localization of holdings involved in the implementation of indirect FDI.

2.2. The role of the Eurasian integration for dynamics of FDI from the CIS

The example of the EU shows that there is a strong eventuality of political and corporate integration. During more than half a century of development of the European integration project, multinationals of Western European countries to a large extent contributed to the increase in the interaction of neighboring states, and themselves also increasingly aimed their investment contacts to EU partners. As a result, the accumulated amount of FDI from the EU within this integration group is now significantly larger that FDI from those countries outside the European Union (Eurostat, 2013). Within the CIS, or a narrower integration between Russia, Belarus and Kazakhstan, no such intensity of mutual FDI is observed.

2.2.1. Importance of mutual investments of Russia, Belarus and Kazakhstan

According to MIM CIS, by the end of 2012 the accumulated mutual FDI stock of the CIS and Georgia amounted to nearly $ 54 billion — an increase over three years of 32% (see Table 4). The mutual FDI of the three countries of the Customs Union, although not growing so fast, was the most intense in the region: $ 22.7 billion or more than 42% of mutual FDI accumulated by the CIS countries and Georgia. In contrast, FDI not associated with Russia, Belarus and Kazakhstan grew at the fastest rate in 2009–2012 in the post-Soviet space (in this case the effect of their low base should be taken into account). At the same time, we still cannot judge on the relationship of corporate and political integration based on generalized data because the figure for a country may vary significantly based on individual transactions.

Table 4 — Comparison of mutual investments of Russia, Belarus and Kazakhstan and the whole CIS region and Georgia

Indicator	2009	2010	2011	2012
Mutual FDI stock of the Customs Union, $ billion	17.8	18.9	22.7	22.7
Accumulated FDI from other countries of the CIS and Georgia to Russia, Belarus and Kazakhstan, $ billion	1.4	1.9	2.7	1.5
Accumulated FDI from Russia, Belarus and Kazakhstan to other CIS countries and Georgia, $ billion	20.7	23.0	25.5	27.8
Other accumulated mutual FDI of the CIS and Georgia	0.8	1.0	1.8	1.9
Total accumulated mutual FDI of the CIS and Georgia	40.7	44.8	52.7	53.9

The most striking example is the sale of assets of Kazakh businessman M. Ablyazov in Russia, which is not linked with the progress of integration. He had frozen the construction of logistics centers in different cities of Russia for several years. Then in 2010 a Russian court issued a warrant for his arrest; and in 2011–2012 the assets were sold off as a result of the trials.

An even more typical illustration is the quick sale of all assets in Russia by the current Georgian Prime Minister Boris Ivanishvili on the eve of elections in Georgia. This led to a sharp reduction in FDI stock of post-Soviet countries outside the Customs Union in Russia, Belarus and Kazakhstan (see Table 4).

Even the most ambitious Russian FDI can vary greatly, especially in small countries. For example, now it is quite difficult to predict the dynamics of Russian investments in Armenia over the coming years. In many aspects, it will be connected with the possibility to implement the largest of the recently announced projects to build a new nuclear power plant. According to the head of Rosatom Sergey Kiriyenko, Russia's investment may amount to 20–25% of the total cost of the project, which is about $ 1 billion (Rosatom, 2010).

In this regard, it is necessary to explore in more detail mutual FDI by considering the prospects of specific projects. The impact of a deeper integration of Russia, Belarus and Kazakhstan can be evaluated by both the study of new Russian investment projects in Kazakhstan, and by an assessment of the impact for Russian FDI in Ukraine, which did not join the top three CIS countries building the Eurasian Economic Union.

2.2.2. New investment projects in Kazakhstan

Development of investment cooperation between Kazakhstan and other countries of the post-Soviet space over the past two years has been characterized by mixed trends. In 2010 post-crisis recovery started in most of the CIS countries. This led to an increase in investor interest for recovery of old and development of new projects. An additional incentive for mutual investment (especially in manufacturing industry) was the creation of the Customs Union in 2011. However, in 2012 the CIS countries experienced a deterioration of the macroeconomic situation; and the majority of enterprises became more wary of projects that required long term implementation and consider-

able investment. Therefore, in 2012–2013, despite a large number of projects under discussion, the total amount of mutual investments remained small. Nevertheless, with the emergence of several promising projects in the near future this negative trend will hopefully reverse.

The largest project launched by Russian investors in the post-crisis period was the construction of the fertilizer plant in Jambyl Region of Kazakhstan by agrochemical company EuroChem. The project was announced in 2008, but its immediate implementation began only in 2012, when the government approved the investment program worth $ 2 billion. The new plant will enable EuroChem to take a leading position in the markets of Central Asia. Kazakhstan, in turn, will be able to turn from an importer to an exporter of nitrogen, phosphate and compound fertilizers.

Particularly noteworthy is the acquisition in 2012 of 50% of JSC Locomotive Plant in Astana for $60 million by the Russian company Transmashholding. As this is a merger rather than greenfield FDI, the newly built Kazakh joint venture, although not attracting enormous investments, will immediately demonstrate the positive impact of mutual investments in the real sector of the economy. In addition, the same Russian company, in partnership with the French group Alstom, in 2012 completed the construction of a plant for the production of electric locomotives.

At the end of 2011 AvtoVAZ and Kazakh assembly plant Asia Auto began negotiations on the construction of a car plant in Kazakhstan. By 2014, it is planned to launch the first stage with annual capacity of 60 thousand cars (Lada Granta and Lada Kalina). The cost of the plant is estimated at $ 400–500 million, but the sources of financing and the share of each of the investors have not been disclosed yet.

Despite the presence of two high-value investment projects, the majority of Russian investments in the past two years fell on those companies that have long been working in the local market and now aim to consolidate and, in some cases, to strengthen their positions. A typical example is the mobile operator VimpelCom, which invested heavily in the development of cellular networks and Internet in Kazakhstan. Pioneers of the Kazakhstan market — Russian energy companies — remain active; their first investments were made in the second half of the 1990s. However, if earlier investments were almost all in the mining industry, the trend of the last year was the increased interest in the refining sector. In January 2013, Gazprom Neft acquired LLP Bitumen Plant located near Shymkent in southern Kazakhstan. Raw materials for the production of bitumen (tar) will be supplied to the plant from the Omsk Oil Refinery. The bitumen will go to the domestic market as well as to the countries of Central Asia, where the Gazprom Neft plans to take up 20% of the market (Gazprom Neft, 2013). Purchase of the bitumen plant in Kazakhstan is one of the few examples of Russian investors using the opportunities that have opened up after the creation of the Customs Union.

It is highly probable that Lukoil will follow the footsteps of Gazprom Neft. At the recent meeting between the President of the country N. Nazarbayev and the head of Lukoil V. Alekperov, plans to build a plant for the production of lubricating oils in the south of Kazakhstan were announced. The plant's capacity is estimated at 100 thou-

sand tons per year. If the project is approved, the plant will be commissioned in 2016, and the total investment, according to experts, could reach about $ 100 million. Investments that have been announced and are not related to the energy sector include: the project of the Russian food holding Efko to build a plant oil and fat products in the north-east of Kazakhstan; and the joint project of Kazakhstan Engineering and the Russian Concern Tractor plants for the production of agricultural machinery in North-Kazakhstan Region. These two projects with approximately equal volume of anticipated investment ($ 40 million and $ 30 million respectively) have two common objectives: to avoid the costs associated with transportation of goods from Russia; and to establish a bridgehead in Kazakhstan for the promotion of products in the markets of Central Asia.

2.2.3. Dynamics of investments in Ukraine

Currently it is quite difficult to assess the dynamics of investments in Ukraine according to MIM CIS, as in 2012–2013 many new sources of information emerged. This led to a reconsideration of a number of previous rough estimates of the country's accumulated investment from companies from other CIS countries.

For example, it was only at the beginning of 2013 that we managed to obtain comparable data on long-term assets of regional electricity companies in Ukraine, controlled by Russian investors. This was due to the publication of reports on the Internet by most of them in 2011 and 2012 (see Table 5). Before that, we used rough estimates based on fragmentary information in the media about the results of individual privatization tenders for the sale of non-controlling interests in a number of regional electricity companies. As it turned out, the indicator for the end of 2011 was understated by 44%, even though it was quite overstated for Lugansk Energy Association.

The reduction of Russian FDI in Ukraine began to show at the end of 2012. It is unlikely that it is connected only with Ukraine's refusal from early accession to the Customs Union and the Eurasian Economic Union. In 2013, Lukoil sold Odessa refinery, and TNK-BP has decided to mothball Lisichanskiy refinery — it had been shut down in 2012. Some of the less significant assets of Russian multinational corporations have been sold or are on sale.

There was a similar reduction of the value of previously acquired assets of MTS, Evraz and a number of other companies. This was due to the lack of new investments in modernization or low assessment of the market value of subsidiaries — for more details see section 3.1.3. These divestiture examples indicate a reassessment of the prospects of the Ukrainian market. On the one hand, it is an objective reality — Ukraine does not have very intensive markets, and economic dynamics does not allow reliance on their rapid expansion. On the other hand, the market capacity of one country is not critical when it participates in a large integration group. In other words, Ukraine's problem is not only its domestic economic difficulties, but also the absence of certainty about its integration choice.

Table 5 — Assets of the regional electricity companies in Ukraine controlled by Russian investors

Company	Investor	Share in 2012, %	Long-term assets (share), $ million		
			2010	2011	2012
Total, controlled by Russian investors			**1112**	**1374**	**1724**
Lugansk Energy Association	Energy standard	100.0	292*	311*	331*
Odessaoblenergo	VS Energy	65.8	139	206**	313
Zhitomiroblenergo	VS Energy	91.6	115	247**	268
Kirovogradoblenergo	VS Energy	93.4	110	134**	157
Poltavaoblenergo	Energy standard	72.0	75	72	96
Kharkivoblenergo	Energy standard	37.0	93	90	89
Khersonoblenergo	VS Energy	94.5	59	58	66
Sevastopolenergo	VS Energy	94.9	25	26	66
Vinnitsaoblenergo	Energy standard	70.0^	13	14	51
Dniprooblenergo	Energy standard	15.9	32	49	50
Chernigivoblenergo	Energy standard	96.0	~34	~40	~47
Sumyoblenergo	Energy standard	72.0	40	38	47
Krymenergo	Energy standard	12.4^^	10	13	34
Ternopiloblenergo	Energy standard	40.1	29	29	30
Zakarpatieoblenergo ***	VS Energy	50.0	4	0	24
Nikolaevoblenergo	VS Energy	15.0	13	14	16
Cherkasyoblenergo	Energy standard	37.2	15	18	14
Chernovtsyoblenergo	VS Energy	67.0^^^	4	4	13
Khmelnitskoblenergo	VS Energy	21.1	10	11	12
Kyivoblenergo (89.12%)	VS Energy	Purchased from the American AES Corp. for $ 113 million in 2013			
Rovnooblenergo (84.56%)					
Lvovoblenergo (39%)	Energy standard	Sold in 2010 in the course of assets exchange (approximately for $ 35 million, $ 27 million and $ 20 million respectively)			
Prykarpattiaoblenergo (34%)					
Zakarpatieoblenergo (18%)					

* — financial statements are not published; the amount of annual investment programs and very approximate cost of initial purchase is known ($ 200 million).

** — In 2012 the figures for 2011 were changed, according to previous reports — only $ 140 million, $ 116 million and $ 96 million respectively

*** — Up to 2011, the investor owned 10.5% stake, but on the eve of the privatization tender sold them, then bought 50%, made additional investments, but in 2013 sold the stake.

~ — Calculation based on net, rather than long-term assets

^ — 50% of the shares additionally purchased in 2012, ^ ^ — 1.6% additionally purchased in 2012, ^ ^ ^ — 45% additionally purchased in 2012.

3. Methodological issues of management and development of MIM CIS database

Almost any FDI study suffers from a lack of reliable information. This problem is defined by two fundamental reasons: the heterogeneity of FDI themselves (for example, one-time transactions or long-term phased construction or modernization projects) and lack of transparency of investor companies (including their reluctance to provide exhaustive information to official statistics bodies even on a confidential basis). The problem is especially acute in developing and post-socialist countries. In recent years there has been clear progress in corporate reporting of Russian multinational corporations; and more recently of many companies in Ukraine and other CIS countries. This means that each year more accurate estimates of MIM CIS can be obtained. Also the emergence of new sources of information enables the revision of previously published figures on the scale of investment, often changing them quite significantly.

3.1. The reasons for inevitable revision of previously published figures

Some changes in the statistics published within MIM CIS may be associated with the improvement of techniques. In particular, the abandonment of OKVED in favor of a more adequate and clear two-level classification of industries has forced us to adjust some data on the sectoral structure of mutual FDI in the region. Uniform assumptions on transactions have been adopted, which are essential for the analysis in the absence of accurate data. This has also led to minor changes in statistics.

At the same time, much more serious revisions occur for a number of other reasons. They will objectively persist for many years, even if no further adjustment of MIM CIS methodology is made. First, the improvement in corporate reporting allows rough estimates of the value of various transactions made by external experts to be replaced with accurate data on the value of the acquired assets provided by investors themselves. Second, even in the absence of official information on major investment projects (especially if they are resold) eventually a more adequate evaluation of indirect investment can be obtained. At the same time we must not forget that corporate reporting rarely provides information specifically on FDI. In addition, the question always arises about the adequacy of using the purchase price of certain assets within a few years. In the case of non-financial multinationals the value of long-term assets can be used for indirect assessment, which is almost always published by companies in their reports (Kuznetsov, 2009). However, these assets in the absence of new investment are usually depreciated. This could result in a gradual reduction in our estimates of FDI in the absence of sale of the enterprises by investors from the CIS countries.

3.1.1. Appearance of additional information sources

Calculation of FDI volume by authorities or by independent experts always involves the

use of indirect estimates. For several decades, most countries have agreed on a common criterion for the border between direct and portfolio investments. For this purpose a 10% statistical threshold is established (though actual long-term nature of investments with participation in management of the company — FDI in nature — can take place at a lower or, on the contrary, only at significantly higher share). However, this does not eliminate the large number of technical challenges for evaluating specific investments of companies, when the fact of FDI has been recognized, and for further interpretation of the collected statistics. Not by chance, the fourth reference definition of FDI made by the OECD on the basis of IMF principles set out in the "Balance of Payments and International Investment Position Manual" is a more than 250-page document (OECD, 2008). Part of the issues considered in the OECD manual are related to the geographical and sectoral reference of FDI, as well as identification of control through third parties — in this case we will be interested primarily in a mechanism for obtaining a statistic indicator for a particular investment project in principle.

Traditionally, FDI can be classified as greenfield FDI and mergers & acquisitions. The first case concerns new infusion of capital, while the second one involves only a change of ownership. However, even a simple change of ownership without new investment can lead to reorganization of business, transformation of management and other transformations. This can have a significant positive impact, as if the company has received additional capital from the new owner. In practice the intermediate form of FDI is popular, when the acquired company undergoes subsequent significant expansion and/or modernization. Formally, each new investment project in the framework of the purchased company can be considered as a greenfield project (e.g., installation of an additional assembly line, or a new unit), combining such FDI in the category of "additional new investment". The concept of brownfield FDI can often be found in scientific literature, (Meyer and Estrin, 2001; Cheng, 2006). Separation of the third category has a special meaning, if additional investment in modernization is negotiated (or planned) already in conclusion of the contract of sale of the business, in particular, during privatization tenders. Finally, there is a special fourth option — financial restructuring, when the change in FDI stock is due to debt repayment or reduction of losses (OECD, 2008).

In this case, the sources of funding, regardless of the type of FDI also may differ. This could be, for example, the increase in share capital of a subsidiary (i.e. the real flow of long-term foreign investments), the use of borrowed funds of the parent multinational (i.e., the flow of funds from abroad with their subsequent return, but retaining assets created with them) or reinvestment of profits earned in the country of investment. The value of transactions in this case may be determined not only by the cost of the acquired assets, but also by other factors (the need to repay debt of the acquired company, premium paid for promising asset due to competition with other potential investors). The acquired assets can quickly depreciate for a variety of reasons (including currency fluctuations), or, conversely, rise in price.

OECD recommends always adhering to market valuation of assets for the purpose of statistical recording of FDI, but recognizes that, in practice to determine the accumulated FDI, it is often necessary to use data on the book value due to the lack of other data. In fact, the OECD recommendation may only apply to companies whose shares are listed

on stock exchanges and are characterized by high liquidity. In case of MIM CIS there are virtually no such companies. In other cases, it is recommended to use one of the five methods or a combination of them (and it is not clear how to achieve true comparability of indicators using only certain ways in relation to different companies):

- Prices of recent transactions (preferably within a year, and the price should be determined on a competitive basis, which is rare);
- Own funds at book value (subject to availability of reporting under international standards, although the estimate excludes certain types of intangible assets related to the company goodwill, since it is impossible to assess it for own needs);
- Net asset value (although accounts the value of goodwill, in practice, in company reports many components are at historical or nominal value, or not taken into account at all);
- Market capitalization method (through assessment by capitalization of comparable companies with liquid stocks in the same region and industry, but often there are no such companies);
- Present value of expected income or the market value of a global group of companies in proportion to the volume of transactions in the market (OECD, 2008).

The first way is the key in MIM CIS if the information is present in the reports of companies. However, the purchase price is often hidden and evaluation by comparable transactions (including acquisition of another stake of the same company) usually does not give a reliable result. Following the second or third methods is complicated by the fact that within MIM CIS it is usually possible to use only information on geographical segments of parent investor companies, with data on revenue and long-term (or even total) assets, while the subsidiaries do not publish any reports.

At the same time the OECD outlines a list of indicators, which can be used, in principle, as a reference, but with further refinement: purchase price (if more than a year has passed), accumulation of FDI flows into equity capital and so on. In practice, statistical agencies manage to interrogate some of the investors and collect certain information from their reporting; they also monitor the financial press. They then make various estimates and calculations, including by indirect indicators. In this case, the time lag in publication of multinational reports leads to the fact that FDI statistics are either severely delayed, or a number of indicators have to be revised within one or two years.

In the case of MIM CIS another problem is added — many of the companies from post-socialist countries are just beginning to publish statistics to international standards. Reporting appeared in a number of companies only in 2010–2012 (if not in the last year); other companies still do not publish financial statements and annual reports, but very likely will do so in the near future. As a result, MIM CIS statistics are revised due to the replacement of preliminary assessments with final ones using the same sources. An equally important reason is the transition from expert reviews published in the financial press that are not very reliable, to the data presented by the companies themselves. A good example is the above-discussed regional electricity companies in Ukraine (see Section 2.2.3).

The transition to the use of corporate statistics is a qualitative step forward, but we must take into account the low completeness and accuracy of the statistics in first reports of companies. The use of non-current assets in MIM CIS for indirect estimates of FDI, while providing comparable data on many subsidiaries of non-financial companies, does not meet the OECD recommendations. This decision is more adequate than the use of heterogeneous unverified information from various sources. With successful development of MIM CIS and quick start of publication of financial reports by subsidiaries located in the CIS, the next qualitative step in a few years could be the transition to accounting of FDI through the assessment of own funds at book value. This would lead to a new adjustment of our estimates of capital investments.

3.1.2. Refinement of unofficial estimates appearing in the media

Despite the expansion of corporate information, media publications still represent a large group of information sources for MIM CIS. In some cases, media disclose indicators that have been received via formal or informal channels from companies (which do not publish full annual and financial statements, at least for public use.) However, expert evaluations of opaque projects are more often in the financial press. Typically, the basis for such evaluations is the data published on comparable transactions or previously announced proposals for the project under review. As to alternative proposals, their use is especially questionable, as they were rejected by one of the possible participants of the transaction. Evaluation of FDI using the value of similar projects is used within MIM CIS as one of the methods (for example, in the study of investment in petrol station network); but in general, this approach cannot be considered entirely successful, especially for large companies when there are almost no similar large enterprises (including ones with the same current financial state).

In March 2011 RusHydro completed the acquisition of Sevan-Hrazdan cascade (or rather 90% of CJSC International Energy Corporation, which controls a number of HPPs on the Hrazdan River) from another Russian investor — Inter RAO UES. According to Kommersant newspaper of March 25, 2011, reprinted by RBC and other media, the transaction value was not disclosed, but estimated at $ 200–290 million. Apparently, the experts came from the value of assets prior to their deterioration. However, on January 27, 2012, RBC Daily announced plans of RusHydro, for which the Armenian asset became the first manufacturing facility abroad, to invest $ 8,000,000 in modernization of the HPP cascade, after these assets were bought for 170 million rubles (that is, less than $ 6,000,000). Insignificant cost of sale was later reflected in the financial report of Inter RAO UES — cash flow to the company amounted to 126 million rubles, the gain on disposal of assets — 258 million rubles. Later, the media announced significant investment plans of RusHydro in Armenia. The Russian company has decided to invest $ 16 million of own funds and $ 50 million of borrowed funds up to 2017 to improve reliability, reducing repair and maintenance costs, and increase capacities of the plant. However, as for January 2013, only a loan of $ 25 million for 10 years was raised.

Consideration of the proposed investment in media is particularly inaccurate. Plans can be reviewed many times both due to changes in the situation at a particular investor, and

global changes in economic conditions, which were most clearly shown by the last global crisis. Not by chance the quality of international database of greenfield project collected by Financial Times is much worse than mergers and acquisitions database published by Thomson Reuters (for details see Section 3.3.2). Media publications on greenfield projects in the post-Soviet space were no exception — often through the years it was revealed that the alleged investments were in practice many times smaller, or even the projects were frozen.

For example, in the summer of 2010 many media announced the project on construction of a poultry farm in Kardymovsky district of Smolensk Region by Belarusian (however registered in the UK) company Servolux. Planned investments in the region's largest poultry farm were 2 billion rubles (more than $ 65 million) — in fact, it was a record for the Belarusian investors. The company planned to reach full capacity for growing broiler chickens of 50 thousand tons per year in November 2013 (see, for example, the newspaper Izvestia on August 4, 2010 or post at website http://www.agro.ru dated August 5). Until the summer of 2012, the news was reprinted by other online publications, discussing the Russian-Belarusian economic relations. However, on April 24, 2013 it was noted on the website of the Kardymovsk branch of the party United Russia (http://er.kardymovo.ru) in the material dedicated to meeting with candidates for election to the regional Duma, that the project was frozen for a long time on the initiative of the Belarusian investors.

The companies may also revise their statistics. In some cases, the final terms of the transaction are changed (which is reflected in media reports), but the more important factor contributing to the adjustment of MIM CIS data, is the gradual revaluation of previously acquired assets.

3.1.3. Gradual revaluation of previously acquired assets by companies

As the OECD recommendations on FDI accounting directly point to the desirability of current evaluation of the market value of the companies controlled by direct investors, actual values shall be taken for substituting indirect indicators as well (for example, the cost of long-term assets).

The simplest example of companies' reevaluation of previously acquired (created) assets is currency fluctuations, since accounting is usually done in local currency, but in MIM CIS all amounts are converted into US dollars. In MIM CIS database such revaluation is best seen by the example of FDI in foreign subsidiary banks, since quarterly statistics on the amount of share capital are available for the majority. For example, the Belarusian JSC BTA Bank (99.7% of which since 2004 has been owned by one of Kazakhstan's leading investors JSC BTA Bank) for many years has had charter capital of 61.336 billion Belarusian rubles. At the end of 2012 it was only $ 7 million, whereas at the end of 2008 — nearly $ 28 million, due to fourfold devaluation of the Belarusian national currency over the four years.

The bigger problem is the change in the accounting policy of the investing company. It is rare, but it leads to an actual rupture of time series. Much more often, but also with sig-

Table 6 — Revaluation of a number of major projects in Ukraine in the annual accounting statements of the top Russian multinationals

Investor	Investment object	Non-current assets, $ million				
		2008	2009	2010	2011	2012
Sistema	«MTS Ukraine» and other telecom-related assets	1677	1512	1281	1046	784
Evraz	«Evraz Petrovsky DMZ» and its associated factories and mines	1344	1020	892	759	668
Mechel	«Donetsk Steel Mill»	–	–	–	537*	422*
TNK-BP	Lisichanskiy refinery and petrol station network	256	296	558/377**	509/415**	256
RUSAL	«Zaporozhye aluminum plant» and «Nikolaev Alumina Refinery»	…	241	270	274	239

* — Only direct investment, as transaction was executed in December 2011

** — The data in the financial report 2012

nificant adjustments, revaluation of acquired foreign companies occurs. Typically, investors misestimate intangible assets, expecting another positioning in the new market or other synergies within the multinational after the accession of the new subsidiary.

Finally, there is a depreciation of assets — either existing assets acquired or greenfield projects. Sometimes investment projects prove to be not quite effective. In particular, the company can make new investments not leading to an increase in its value, ensuring only, for example, retention of its earlier positions. This situation is typical for telecommunication companies. Many of these examples can be easily illustrated by large Russian investment projects in Ukraine (see Table 6).

Revision of the data previously published by companies leads to revision of statistics of MIM CIS. It is also possible due to errors in company reports (sometimes even intentional — for example, overstatement of net assets before the proposed sale).

3.1.4. Discrepancy between selling price and value of investments in project development

The best way to determine accumulated FDI on a particular project is the price of its recent resale. However, the market value of a business may be heavily volatile. The purchase price is usually determined by net assets, that is, the difference between the book value of all assets and the total debt of the company. In this case, a specific amount of debt can be caused by short-term factors. As a result, after a year, depending on market strength of the company, the company's net assets may have an entirely different value. The special case is represented by privatization tenders, where the price can be strongly biased in either direction, depending on the willingness of the state to make more money or get rid of the asset.

Even with a formal market pricing conditions there can be a strong distortion of the competitive environment, which is particularly well illustrated by the real estate market in Moscow, St. Petersburg and other Russian cities. As a result, the present value of investment – projects with a large proportion of buildings in the composition of fixed assets poorly reflects the volume of investments made by investors. In such cases, the

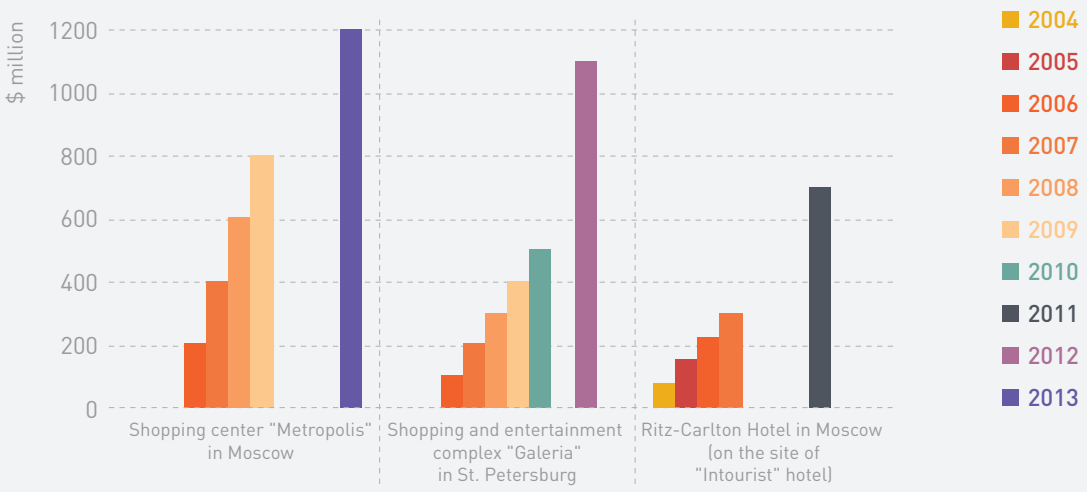


Figure 6 — Growth of FDI stock during construction and consequent resale price of the major projects of Kazakhstan investors in Russia

Source: RBC Daily (http://www.rbcdaily.ru), May 13, 2011, Vedomosti, February 22, 2013, Kommersant, October 26, 2004, Mergers and Acquisitions (http://www.maonline.ru), 11 May 2011, Crimean Architectural Portal (http://archiportal.crimea.ua), August 13, 2012, Real Estate Market Indicators (http://www.irn.ru), May 11, 2011.

current price is a realistic assessment of FDI; but there is no guarantee that, without any physical changes within a few years, when the real estate bubble bursts the objects are not depreciated.

A clear illustration can include major projects of Kazakh investors in Russia, which were resold at a price of several hundred million dollars more than the investment in their construction. In February 2013, Capital Partners sold for $ 1.2 billion the shopping centre Metropolis in Moscow to US investor Morgan Stanley Real Estate. The Kazakh investor invested only about $ 800 million in the construction of the centre in 2006–2009. Earlier the same fund bought for $ 1.1 billion the shopping and entertainment complex Galeria in St. Petersburg — a long term construction project, which was revived in 2006 by Meridian Capital, controlled by the Kazakh capital. Having completed the property by November 2010, it has invested approximately $ 500 million in the project. The third-largest transaction was the resale of Ritz-Carlton in Moscow for $ 700 million to Kazakh company Verny Capital, although Capital Partners, having bought in 2004 at the design stage the right to build a new hotel on the site of the demolished hotel Intourist, eventually invested only about $ 300 million in the construction (see Figure 6).

It should be noted that in case of Morgan Stanley there is an overpayment relative to the average current market prices for commercial real estate properties (which is assessed on the basis of the average yield for a certain period). Such a large investment fund can afford to pay a premium (or rather — to wait longer for payback) to take hold of quite profitable properties. However, this particular example shows that well-known underestimation of market capitalization of companies from post-Soviet space (for this purpose they even initiate listing on stock exchanges in London and New York) is associated not only with low liquidity of their domestic capital markets. As the value of a company often depends on the expected discounted income for the specified future period, the smaller planning horizon in the CIS countries leads to an underestimation of some com-

panies, thus underestimating FDI made in them.

3.2. Issues of comparability of MIM CIS data with statistical information from other sources

Since MIM CIS is not the only project on the study of FDI in the CIS region, external experts often raise questions about the comparability of data. Without assessing the deficiencies of methods of our competitors, we'll focus on a comparison of MIM CIS data with official statistics, as well as an international research program Emerging Market Global Players studying leading multinationals from developing and post-socialist countries in a team of IMEMO participants from the Russian side (Kuznetsov, 2013).

3.2.1. Comparison of MIM CIS data and official statistics

As compared to official statistics, MIM CIS indicators are much higher. The gap is especially evident when considering the Russian outward FDI stock вместо the accumulated Russian FDI(see Table 7). The leading national investors usually publish detailed financial statements (i.e., the majority of transactions do not fall out of the field of view in the analysis), but often make investments in other CIS countries through third countries. However, the frequency of use of offshore companies varies from country to country. For example, in Belarus more than half of Russian FDI was received directly (due to Gazprom). The popularity of offshore companies and so-called "offshore-conducting" jurisdictions is high among the investors of the other CIS countries (see details in section 2.1.1).

In detailed sectoral context (if present in CIS countries statistics) higher official fig-

Table 7 — – Russian outward FDI stock by countries: CB RF and MIM CIS data

Country	FDI stock, $ billion (CB RF data)		FDI stock, $ billion (MIM CIS data)	
	01.01.2012	01.01.2013*	01.01.2012	01.01.2013
Total, CIS and Georgia	**15.3**	**17.7**	**42.2**	**44.5**
Belarus	4.6	5.1	7.3	7.5
Ukraine	4.4	5.1	14.9	16.7
Kazakhstan	2.5	3.3	10.7	10.5
Armenia	1.4	1.5	1.9	1.9
Uzbekistan	0.9	1.0	3.6	3.9
Tajikistan	0.6	0.7	0.9	1.0
Moldova	0.4	0.5	0.5	0.5
Georgia (excluding Abkhazia and South Ossetia)	0.2	0.3	0.4	0.4
Kyrgyzstan	0.2	0.2	0.6	0.7
Azerbaijan	0.1	0.0	1.4	1.4
Turkmenistan	0.0	0.0	0.0	0.0

* Preliminary estimate is received by adding to the data at the beginning of 2012 the data about net inflows in 2012, published by the Central Bank of the Russian Federation on June 11, 2013.

ures may be present. This is due to still incomplete accounting of small projects in MIM CIS that the central banks of the CIS countries rarely examine in detail as well, but account information on them using econometric models.

3.2.2. Importance of correct comparison of MIM CIS and other projects

According to MIM CIS, for example, Russian outward FDI stock in the region is about $ 45 billion. Although it is almost three times higher than the figure registered by the Central Bank of the Russian Federation, this value does not even reach 12.5% of all Russian FDI in late 2011 and early 2012. However, some experts point to the fact that already for three IMEMO studies — that have been conducted in the framework of Emerging Market Global Players, initiated by Columbia University in New York — show far greater weight of the CIS countries in the geographical distribution of foreign assets of the top Russian multinationals. In particular, in 2011 nearly 28% of the foreign assets of the 20 largest Russian non-financial multinationals fell on the CIS countries and Georgia (see Figure 7). If we recall the findings on the dominance of neighboring countries for small rather than large investors (Kuznetsov, 2008), repeatedly tested on materials of different countries, it appears that at least one third of foreign assets of Russian multinational corporations are located in the neighboring countries. What is the root of the conflict?

First of all, it must be emphasized that foreign assets include short-term assets as well, which have no relation to FDI. This is because ratings of the leading non-financial multinationals, published annually by UNCTAD, are based on data on the total foreign assets, which are easier to collect on the companies, rather than on data on long-term (non-current) assets (UNCTAD, 2012). Many types of short-term assets (e.g., trade and other

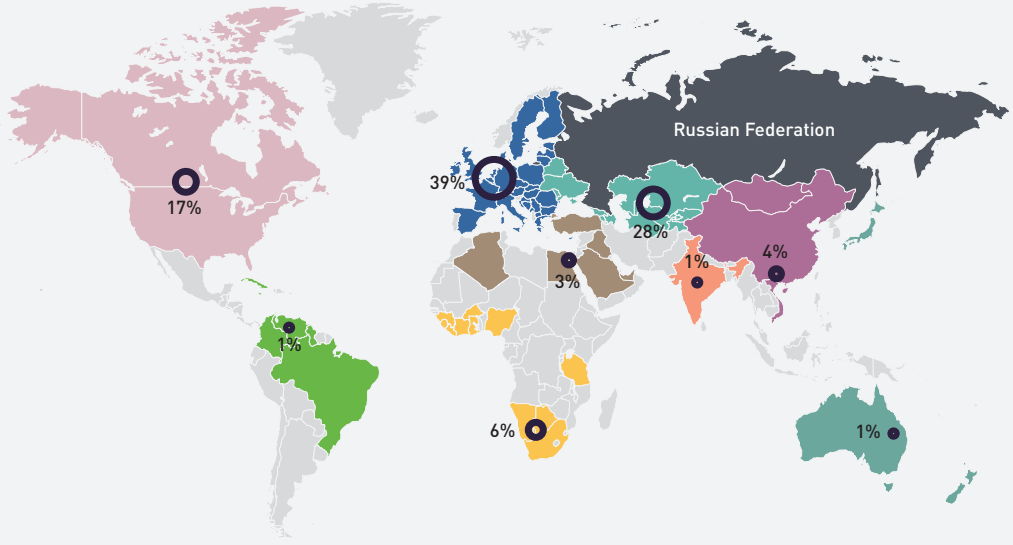


Figure 7 — Role of the CIS countries and Georgia in foreign assets geography of the leading Russian non-financial multinationals

Source: Kuznetsov (2013) Global Expansion of Russian Multinational corporations after the Crisis: Results of 2011. Available at: http://www.vcc.columbia.edu. Areas of circles are directly proportional to the shares of the regions in the total foreign assets of the top 20 non-financial multinationals (shares are in%).

receivables and partly inventories) are related to foreign trade, which is more intense with the neighboring countries.

There is a more substantial explanation — in fact, much of the Russian FDI stock, as reflected in the statistics of the Central Bank of the Russian Federation, is not related to foreign investment of Russian multinationals. If investments of individuals in overseas property, or assets of Russian investment funds outside Russia, are just another form of FDI, then round-tripping FDI via Cyprus and other offshore jurisdictions simply overstates the indicator of the Central Bank of Russia. In other words, the share of Russian FDI stock in the CIS should be calculated not from the nearly $ 362 billion (as of early 2012), but from a much smaller amount.

3.2.3. Expansion of geographical coverage in analysis of FDI of the CIS

Expansion of the geographic scope of the analysis of direct investment will help identify the approximate share of Russian roung-tripping FDI, as well as other significant investments from the CIS countries. In fact, already the addition of all the European countries as well as Turkey, China, Vietnam, Mongolia and countries in Northeast Asia would cover the bulk of FDI of the CIS using MIM CIS method (see Figure 8).

Undoubtedly, there are many other positive impacts of the expansion of MIM CIS methodology to other regions (see details in section 3.3.3). Apparently, even at the end of 2013 this expansion will provide new important results, among other things, enriching the analysis of mutual investments in the CIS region.

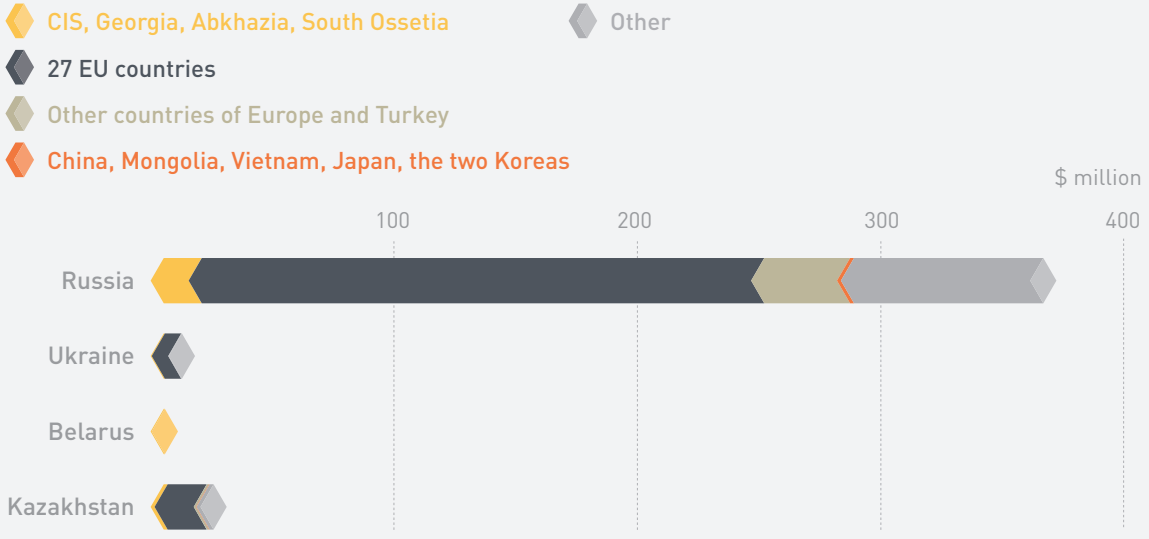


Figure 8 — Official data on outward FDI stock from Russia, Ukraine, Belarus and Kazakhstan in the CIS and other Eurasian countries

Sources: Central Bank of Russia (http://www.cbr.ru), the State Statistics Committee of Ukraine (http://www.ukrstat.gov.ua), IMF (http://www.imf.org — Table 6-o: Outward Direct Investment Positions by All Reporting Economies Cross-classified by Counterpart Economies, as of end-2011).

3.3. Foreign experience of mutual FDI monitoring

The study of foreign experience, in our view, would be very interesting for meaningful adoptions during MIM CIS. Although when taking into account the specifics of collection and interpretation of information in CIS countries, the possibilities for adopting the experience of developed countries are still limited.

3.3.1. European Investment Monitor

Database "European Investment Monitor" (EIM) has been maintained since 1997. It currently includes more than 40 thousand projects, of which 32 thousand are available for users of the system. The initiator of its creation was Ernst & Young, one of the world leaders in consulting and auditing. Direct analytical research is carried out by officers of Oxford Intelligence, which in addition to the work on EIM has established itself with a number of similar projects on the study of FDI and investment climate in selected European countries. For example, for the government of Denmark, it designed the portal Invest in Denmark, to tell potential investors about the benefits of Denmark and give specific examples of the success of foreign companies on the Danish market.

Experts with knowledge of different languages are working on EIM, daily monitoring about 28,000 information sources, including global, national and regional media, news sites, specialized publications dedicated to business issues, official websites of companies and government agencies. Users of EIM website (http://www.eyeim.com) may obtain information on the following parameters:

1) Name, region, and country of origin of the investor;

2) Name and geographical location of the investment project/company receiving the investment;

3) Nature of investments (greenfield project or expansion and modernization);

4) Investment sector;

5) Additional information (number of jobs created, amount of investment, project start date).

The database is updated only four times a year (one month after the end of each quarter): EIM authors explain it with a need for thorough verification of the obtained information.

Ernst & Young states that EIM authors seek to get 70% of the data from official sources (directly contacting the investing company), but nowhere indicates the share of companies that agreed to answer (response rate) in total number of companies surveyed. Another methodological uncertainty is connected with the fact that investors can independently complete information about their project, using the electronic form posted on the website. It is obvious that this method of data collection, although allowing the database to be quickly filled with new investment projects, at the same time increases the risk of occurrence of questionable information, which may not always be verified.

Despite the fact that EIM is by far the most large-scale (and successful) attempt to trace direct investment in the European countries, most of the investment transactions remain

outside the scope of the study. The following categories of projects are excluded from monitoring:

- Mergers and acquisitions and joint ventures (except when they result in the creation of new jobs);
- License agreements;
- Retail businesses, shopping malls, hotels and real estate;
- Telecommunications, airports, ports and other infrastructure projects;
- Mining industry;
- Replacement of old production facilities with new ones (if this is not followed by an increase in staff).

In addition to the above categories, EIM does not include investments of non-profit organizations (charities, government bodies, etc.). The presence of such serious restrictions inevitably leads to the fact that in the general ranking, compiled by the number of implemented investment projects, some countries have unreasonably low (or, conversely, high) positions. A typical example is Spain, where in 2007 (before the onset of the global economic crisis) according to EIM only 212 projects were carried out, although in fact this number was much higher due to investments in infrastructure and the hotel industry (Ernst & Young, 2007).

The relatively narrow industry scope of EIM, however, is compensated by the wide geographical spread of monitoring. Interestingly, EIM accounts for inward investment in all European countries, not only in EU members states. Considerable attention is paid to developing markets, especially Russia, which, according to the monitor, consistently

Table 8 — 10 European countries: largest FDI recipients in 2011 according to EIM database

Rank	Country	Number of new projects				Number of jobs created in 2011
		2010	2011	Change, %	Share in the total FDI received by European countries in 2011, %	
1	UK	728	679	-7	17	29888
2	Germany	560	597	7	15	17276
3	France	562	540	-4	14	13164
4	Spain	169	273	62	7	9205
5	Netherlands	115	170	48	4	2229
6	Belgium	159	153	-4	4	3599
7	Russia	201	128	-36	3	8362
8	Poland	143	121	-15	3	7838
9	Ireland	114	106	-7	3	5373
10	Switzerland	90	99	10	3	1546
	Other countries	916	1,040	14	27	59344
	Total	3757	3906	4	100	157824

Source: Ernst & Young (2012). European Attractiveness Survey

Available at: http://www.ey.com/GL/EN/home/library.

ranks among the top recipients of FDI (see Table 8). Moreover, of all foreign projects on accounting and analysis of direct investment in Russia, EIM differs with the completeness and accuracy of the data presented. In particular, the investments made in Russian by offshore companies (primarily entities registered in Cyprus) are accounted in the database and analytical reports separately from the rest of the projects. The success of work in the Russian area is connected with Ernst & Young setting up its own office in Russia. It has operated there for 24 years — the first office was opened in Moscow in 1989 — and it has collected sufficient experience of analytical work, taking into account the local context.

Ernst & Young publishes an annual survey of investment attractiveness of European countries. Based on national statistics, expert estimates by UNCTAD and EIM results these reports: suggest conclusions about the competitiveness of individual countries in the global FDI market; identify leaders and outsiders among recipients of direct investment; and provide recommendations for improvement of the investment climate in certain regions and sectors of the economy. The authors of the monitoring propose that the real attractiveness of the country is separated from its level of attractiveness from the standpoint of foreign investors, international ratings and expert community. From the point of view of investment research methodology this seems to be justified. One of the main conclusions implicitly present in the reviews on Russia is the major difference between the rather high real rates of FDI dynamics and the uncertainty of the respondents about the feasibility of expanding investment in Russia, and the inadequacy of measures taken by the Russian authorities to improve the investment climate with regard to the expectations put on them (Ernst & Young, 2011).

Of course, when preparing analytical reports in some cases Ernst & Young makes certain inaccuracies or provides incomplete information; but it is generally associated not with defects of the methodology used, but just with the lack of reliable information. In particular, when considering the majority of investment projects in Russia, EIM cannot track data on jobs. This results in the fact that assessment of the impact of foreign investment on the employment rate (both for Russia as a whole and for its regions) is clearly incorrect (Ernst and Young, 2012).

Unfortunately, other countries of the CIS are not paid enough attention in the Ernst & Young analysis, including Ukraine, Moldova and Belarus. They are included in EIM along with Russia. And often this is due to the lack of sufficient analytical resources to account for all noteworthy transactions in FDI market, which are carried out in these countries. Interestingly, Ernst & Young regularly publishes surveys on the investment attractiveness of Kazakhstan. Since this state is not considered as part of EIM, all calculations are based solely on data from government, international organizations and surveys of foreign companies operating in the country.

In concluding the analysis of EIM, it should be noted that, despite informative reports regularly issued by Ernst & Young, this monitoring in essence remains a purely commercial project. Its target audience is entrepreneurs who need information about the benefits of doing business in any European country, and want to find out which companies are already working in their market of interest. The only database of investment projects

up to 2007 remains conditionally free (available to those users who can properly justify their interest in the project), while access to subsequent investment transactions (as well as to a part of the analytical products produced by the company) requires a paid subscription.

3.3.2. Other direct investments monitoring projects

Another interesting product for tracking foreign direct investment is the project "Monitoring of Chinese investments" carried out in the US. In contrast to the Ernst & Young database that was created with the purpose of analytical support for companies investing in Europe, this project initially pursued a fundamentally different task — to evaluate new opportunities and risks facing the United States in the context of growing investment expansion of China. "Monitoring of Chinese investments" is carried out by research company Rhodium Group, with headquarters in New York and offices in Washington, Berlin, Shanghai and New Delhi.

Interest in Chinese investment increased significantly in the late 2000s, when against the backdrop of global recession China was one of the few countries whose companies increased their presence in the capital markets of developed countries. Rhodium Group monitoring started in 2011, and includes all Chinese investments in the US over $ 1 million and implemented since 2000.

The investment map developed by the company enables the interactive finding of the number and value of transactions, with the possibility to sort them by year, states, industries, nature of investments, and type of the investing company — public or private. Unfortunately, for confidentiality reasons Rhodium Group does not provide access to the complete database with specific companies; and information about it can be found only in analytical reports.

The main methodological flaw of «Monitoring of Chinese investment» is that its authors use the total value of investment transactions as the main indicator. As far as it can be determined from the materials of reports published on the website, they do not consider the amount of accumulated investment. In other words, the monitoring lacks critical information about how much of Chinese investment in the studied projects was subsequently taken out of the American economy.

Despite the fact that the Rhodium Group project has been successful and has become one of the main sources of information about Chinese investment in the United States, both for researchers of US-Chinese relations and for Chinese companies operating in the US market, its authors soon faced a serious problem related with the scope of the study being too narrow. In order to form a more adequate understanding of the potential of Chinese investment, Rhodium Group expanded the scope of analytical work, adding to the United States the European Union countries that compete with the US for Chinese investment (Hanemann, 2013). Comparative analysis of investments in the US and the EU has allowed analysts to make an interesting conclusion that the US investment climate is much inferior to the European business from the point of view of Chinese business. And this is mainly due to the negative impact of political factors such as tensions in US-China relations, and excessive national security concerns of the country (Hanemann, 2012).

Ernst & Young and Rhodium Group monitors are the most competent in terms of methodology, but are not the only projects for accounting direct investments. The increased interest of foreign companies to new markets led to the emergence of new commercial systems for investment accounting, which have a global scope of the study and not regional. This is in contrast to the above two systems. The most popular system that tracks greenfield investments is the cross-border investment monitor fDi Markets, created by the analytical division of British business newspaper Financial Times. A similar database, but for mergers & acquisitions, was compiled by the news agency Thomson Reuters. The methodology for the analysis of investment projects used in these databases corresponds in general to the one used to create EIM. The only major difference is the attempt of fDi Markets to strengthen the analytical component by including a special parameter of «investment motives» to the monitoring.

The main flaw of these systems stems from their main advantages — the desire to track cross-border transactions on a global scale. Thus, fDi Markets database, although leading in the number of projects analyzed, does not always display quality research. This is especially when it comes to investments in those countries for which the media (and they are the main source of monitoring) provide incomplete and often unverified information (Kuznetsov, 2010). The same is true for analytical products, which users can order on the official website of fDi Markets (the cheapest of the reports costs £ 99 to customers). Multipage colorful illustrated investment surveys, which the company commits to provide for any country, include information only for 25 investment transactions (and not always the largest ones) for the ten-year period.

In addition to global investment accounting systems, there are national databases, which are usually created in the countries with the acute problem of increasing investment attractiveness. The most illustrating example is Poland, where until the mid-2000s, three government agencies (Central Statistical Office, National Bank of Poland and the State Agency for Foreign Investment) were accounting FDI, and published data for each of the projects. Currently, these functions are performed by Polish Information and Foreign Investment Agency, which annually publishes detailed report on direct investments in the country's economy. The quality of the analytical work of the agency is evidenced by the fact that it traces very clearly the origins of investments, considering separately the cases when investments were made through third countries.

A less successful project on FDI accounting is being implemented by the Canadian Centre for Asia Pacific Studies, which publishes on its website monthly data on mutual investment with the countries of Asia Pacific. In essence, investment monitoring of the Canadian Investment Research Centre is a poorly structured collection of news with a small accompanying table, indicating the number of transactions with each state in the region (Canada-Asia Investment Monitor, 2013).

3.3.3. Possibilities of applying foreign methodology for MIM CIS

Analysis of foreign FDI monitors has shown that one of the main criteria for success of FDI accounting projects is their demand among private business. Further development of MIM CIS implemented by the EDB Centre for Integration Studies and IMEMO, will

largely depend on how its results will be interesting to potential investors, carrying out business in the post-Soviet space. In order to increase the practical relevance of the results of research of investments in the CIS, it is useful to speed up work in three areas.

The first — and here we can take as an example the developments of EIM and «Monitoring of Chinese investments» — to create a convenient and illustrative online database that would enable information to be accessed online, and sorted on a wide range of parameters (country and the region receiving investments, year of the transaction, amount and nature of the investment, and so on). It also makes sense to develop an electronic form in the database of new projects to be completed by the users themselves, subject to further verification of information by database moderators. It would allow for taking into account the increasing number of investment projects, especially in those countries where traditional sources of information (government statistics, media materials, official websites of companies) are clearly not sufficient to get an adequate idea of their position on the investment map of the world. These countries include most of the Central Asia, Armenia and Moldova.

The second area that needs additional intellectual resources is the expansion of monitoring beyond the CIS countries by including EU countries, and some Asian countries (first of all China), which in recent years have been increasing their investment presence in the post-Soviet space. Only in the extended format of the study, as described in detail above in section 3.2.3, it is possible to realistically assess the scale of cross-border investment as a key factor in integration. In addition, the inclusion of European and Chinese investment in the database would help create a more complete picture of the competitive opportunities in the Eurasian capital markets, the analysis of which is always important for potential investors.

Finally, the third area of further work, which draws on the experience of foreign investment research, is strengthening the country component of the analysis and preparation of surveys (based on MIM CIS and expert reviews) for each of the CIS countries. A quality analytics in this area would allow the filling of the information gap, and provide a more adequate understanding of the investment climate in the CIS countries. This undoubtedly corresponds to the global problem of integration in the post-Soviet space, and applied interests of the business community.

Conclusion

Despite the fact that a significant body of new information on mutual FDI of the CIS has been already obtained, the continuation of monitoring, including its expansion into Europe and Asia Pacific, will enable a qualitative step forward to be made in the analysis. The development of MIM CIS in the near future will provide an opportunity to reveal how a corporate map of Eurasian integration is formed, which in the context of globalization will serve as an important complement to the traditional political map. Among other things, it will be possible to accurately assess the role played by round-tripping FDI through offshore companies, and the importance of indirect FDI going into real projects abroad, but with the use of offshore companies.

Deepening the analysis of in-country contrasts in the distribution of FDI in the CIS countries will determine the stability of integration interaction. First of all, this concerns Ukraine, the western region which is clearly gravitating towards the West, and Kazakhstan, which in addition to Russia also has other centers of integration gravity. For quantitative estimates of integration dynamics an index of Eurasian integration in the area of FDI is to be developed on the basis of MIM CIS.

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ANNEX: LIST OF PUBLICATIONS DESCRIBING THE METHODOLOGY AND RESULTS OF MIM CIS

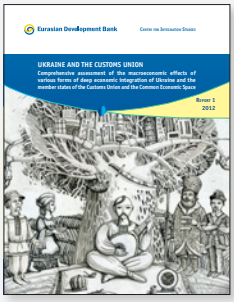
Reports:

- EDB Centre for Integration Studies (2012) *Monitoring of Mutual Investments in the CIS*. St. Petersburg: Eurasian Development Bank, Centre for Integration Studies. Report 6. Available at: http://eabr.org/r/research/centre/projectsCII/invest_monitoring/
- EDB Centre for Integration Studies (2013) *Monitoring of Mutual Investments in the CIS*. St. Petersburg: Eurasian Development Bank, Centre for Integration Studies.Report 12. Available at: http://www.eabr.org/general//upload/CII%20-%20izdania/MonitoringVzaimnikhInvesticii/Доклад12_MIM_2012.pdf

Other publications on the results of mutual investments monitoring:

- Kuznetsov A. (2012a) Consolidating the taken positions. *Expert* No 45 pp. 104–110
- Kuznetsov A. (2012b) World economy/We lived in the neighborhood. *Direct investments* No. 10 pp. 34–36.
- Kuznetsov A. (2012c) Monitoring of mutual investments in the CIS countries. *Eurasian economic integration* No. 4 pp. 7–31
- Kuznetsov (2012d) Russian direct investments in the CIS countries. *International Trends*. No. 2 pp. 18–28.
- Kuznetsov A. (2012e) The investment framework of the Eurasian economic integration. *Eurasian integration in the XXI century* Moscow pp. 170–190
- Kvashnin, Y. (2013) Belarusian distribution companies in the CIS countries. *Eurasian economic integration* No. 1 pp. 86–96
- Kvashnin Y., Kuznetsov A. (2013) Direct investments of the CIS countries in Russia. *Mirovaya Ekonomika i Mezhdunarodniye Otnosheniya* No. 1 pp. 48–56
- Kuznetsov A. (2013) Changes in the sectoral structure of mutual direct investments of the CIS countries. *Eurasian economic integration* No. 1 pp. July 17
- Kuznetsov A. (2012) Monitoring Mutual Investments in CIS Countries. *Eurasian Integration Yearbook 2012* Almaty pp. 129–149 (in English)
- Kuznetsov, A., Anisimov, A. (2013) Monitoring of Mutual Direct Investments in the Post-Soviet Area. *World Finance Review*. Spring, pp. 33-35 (in English)

EDB CENTRE FOR INTEGRATION STUDIES PUBLICATIONS

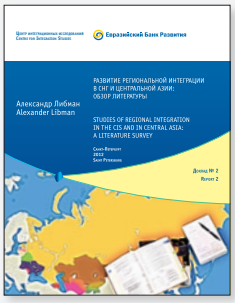


Comprehensive assessment of the macroeconomic effect of different forms of intensive economic cooperation by Ukraine with the member states of the Customs Union and the Common Economic Space within the framework of the Eurasian Economic Community (EEC)

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

Available in Russian and English.

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



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

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

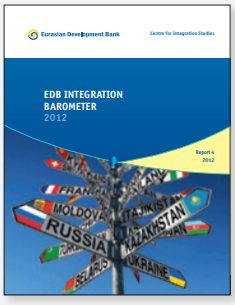
Available in Russian and English.

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

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

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

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



EDB integration barometer 2012

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

Available in Russian and English

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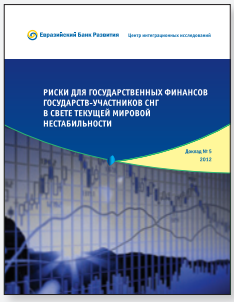
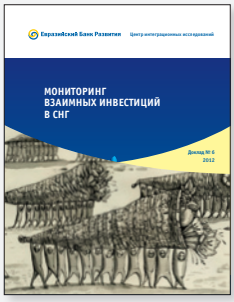


Threats to public finances of the CIS in the light of the current global instability (in Russian)

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

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



Monitoring of Mutual Investments in the Member States of the CIS

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

Available in Russian and English

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

Customs Union and cross-border cooperation between Kazakhstan and Russia

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

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

Unified trade policy and addressing the modernization challenges of the SES

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

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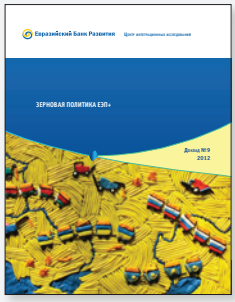


SES+ Grain policy

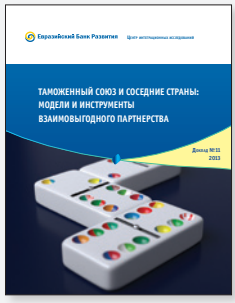
Growth in grain production is propelling Kazakhstan, Ukraine and Russia to the leadership ranks of the global grain market. The Report systematically analyzes trends in development of the grain sector and actual policies and regulations in SES countries, Ukraine and other participants of the regional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

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

Technological Coordination and Improving Competitiveness within the SES

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

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



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

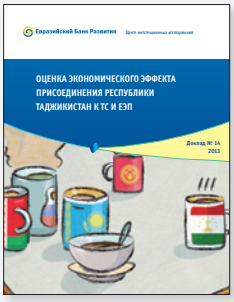
The report proposes a broad spectrum of approaches to the fostering of deep and pragmatic integrational interaction between the CU/SES and countries throughout the Eurasian continent.

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

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

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

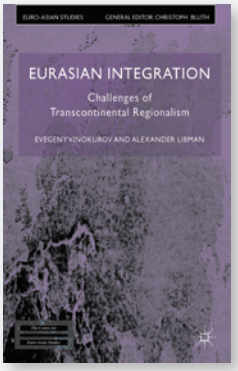
http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/labor_migration_kyrgyzstan_cu/



Tajikistan's Accession to the Customs Union and Single Economic Space

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

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



Eurasian Integration.

Challenges of Transcontinental Regionalism

Evgeny Vinokurov, Alexander Libman

Basingtoke: Palgrave Macmillan

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

Johannes Linn, Brookings Institute

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