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THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND THE BUSINESS ENVIRONMENT OF THE CIS COUNTRIES



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ABSTRACT

THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND THE BUSINESS ENVIRONMENT OF THE CIS COUNTRIES

Foreign Direct Investment (FDI) is one of the important mechanisms for national economic development and the strengthening of cooperation. The integration process taking place in the modern world economy shows that the development of regional associations and individual countries depends on the closeness of international economic ties, especially the increase in mutual foreign direct investment. The process of foreign direct investment helps to introduce advanced technology and implement projects.

The research on the cooperation of Commonwealth of Independent States (CIS) is particularly important. This is due to each country of that region is interested in expanding economic cooperation with the alliance countries under the conditions of modern geopolitical instability, which inhibits investment activities. Today, FDI does not have a significant field of strengthening economic cooperation between CIS countries. Because the main problems in attracting FDI in the CIS are lack of a unified framework of legislation in the field of direct investment, the bureaucracy that breeds corruption, difficult business conditions and the development of the financial market is weak.

The purpose of the study is to determine the impact of foreign direct investment on the development of the economies of the CIS countries and to develop recommendations on this basis aimed at attracting foreign investment for the further development of mutual cooperation of their national economies.

A set of interrelated tasks must be solved to achieve research aims:

- identify the role of foreign direct investment in the development of the economies of the CIS countries and ensuring their mutual cooperation.
- to determine the main factors influencing the cooperation of CIS member countries in the field of foreign direct investment based on comparative analysis of economic development between the countries surveyed.
- to develop practical measures aimed at attracting foreign direct investment to the CIS countries, contributing to the deepening of their economic cooperation.

The work reveals the following main findings:

- the theoretical aspects of the international movement of capital, which determine the essence, role and dominant directions of FDI development in the modern world economy;

- weaknesses (lack of a unified legislative framework for FDI within the CIS; high level of bureaucracy that generates corruption; low indicators of business regulation in individual countries of the union) and strengths (natural wealth, geographic location and market size; improved indicators of business regulation) development of integration processes in the CIS space. Threats (geopolitical problems: the possibility of introducing new sanctions against Russia, which is a key investor within the CIS; dependence of certain CIS countries on energy prices in the external market) of the development of economic cooperation of the CIS countries in the context of geopolitical risks are identified;
- the main reasons hindering the development of cooperation between the CIS member states in the field of FDI are the differentiation of macroeconomic indicators, the geopolitical situation, legislative risks, institutional obstacles and administrative barriers;
- recommendations have been developed aimed at attracting FDI to the CIS countries, contributing to the further development of economic cooperation of the studied group of states.

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1. INTRODUCTION

The deep development of foreign direct investment in CIS countries is particularly important as a promising direction for enhancing economic development. Methods of improving and attracting FDI are constantly being developed and require comprehensive research as they are an important part of international economic relations.

In a country's economy, government policies play a decisive role in attracting FDI from foreign companies. FDI contributes to the growth of foreign trade, which will have a positive effect on the development of economic cooperation between recipient countries of capital. FDI allows new technologies to be obtained and the economy grows in the long term. Research shows that FDI has a positive impact on the economy of the capital recipient country. But there are also some potential risks such as it can be canceled through financial transactions and the high proportion of FDI in a country's total capital inflow may reflect its weakness, not a strength [\(Loungani & Razin, 2001\)](#).

1.1. The essence of FDI

The inflow of long-term direct investment not only increases the export opportunities in attracting country, but also creates new jobs [\(Ernst, 2005\)](#). It should be noted that FDI: increase the employment rate of the population; contribute to gaining experience of foreign management; allows to receive the financial resources necessary for the implementation of a project aimed at business development [\(Michie, 2001\)](#). In general, these factors contribute to the development of the national economy through the formation of new markets. Therefore, the consequences of FDI attraction are depicted in table 1.1.

Foreign direct investment has positive and negative, direct and indirect impacts on the economy of the attracting country. The main factors that indicate the effect of the influence of FDI on the national economy are innovative, macroeconomic, microeconomic, socio-economic, political and natural resource.

For example, direct innovation factors include an increase in R&D costs, and indirect factors include the introduction and exchange of modern technologies, an increase in the level of training of local specialists and an increase in competition. The negative consequences of the inflow of FDI include the transfer of obsolete and unusable equipment from foreign investors. Macroeconomic factors include the following: ensuring a positive current account balance, covering the budget deficit. For example, the depreciation of the national currency caused by profit shifting from the investment recipient country can lead to an increase in inflation, which is a negative macroeconomic factor of the impact of FDI on the national economy.

Table 1.1 Classification of impacts of attracting FDI

Positive influences		Negative influences	
Innovative			
Direct	Indirect	Direct	Indirect
1	2	3	4
R&D development	<ul style="list-style-type: none"> - introduction and exchange of progressive technologies - increasing the experience of local specialists 	absent	transfer of obsolete and unusable equipment
Macroeconomic			
<ul style="list-style-type: none"> - growth of GDP and GDP per capita - covering the budget deficit - reduction of external debt - capital inflow - increase in tax 	<ul style="list-style-type: none"> - development of international trade - integration of economy into world one - improving the tax climate to attract more investors - displacement of public companies - lowering market concentration 	capital outflow from the country	depreciation of national currency
Microeconomic			
attracting direct investment in the real sector of the economy	<ul style="list-style-type: none"> - stimulating the development of local companies - increase the quality of final product - professional development of employees 	inability of local companies to compete with foreign enterprises	exploiting cheap labor without increasing investment in human capital
Socio-economic			
<ul style="list-style-type: none"> - creation of new jobs - decrease unemployment rate 	employment of related sector	absent	imposition of foreign values

1	2	3	4
Natural resource			
- implementation of investments projects in the field of ecology	requirement of using green technology	pollution	deterioration of the ecology due to the increase of production waste

There are two sides of the same coin. On the one hand, it is necessary to protect the competitiveness of domestic producers on the part of the government, on the other hand, FDI has a positive impact on the economy of the host country. Therefore, it is important to develop a transparent and effective system for regulating the process of foreign direct investment, which will be aimed at minimizing the negative and maximizing the positive factors of attracting FDI.

Reciprocal capital flows between countries are international capital migration. It is important to note that the main factors of capital migration include the desire of companies to geographically diversify production and the ability for firms to gain monopoly power over the local market. Firstly, it is important to consider the main benefits of foreign investments: foreign investments allow countries to significantly increase resources, which contributes to the development of national economies; economic convergence of national economies increases investor confidence in the return on investment with the expected profit and as a result, contributes to the flow of investments into the country [\(Nayak & Choudhury, 2014\)](#).

FDI is long-term investment aimed at gaining influence on the investment target, depending on the investor's share in the capital of the enterprise abroad in order to acquire advantages (modern technology, foreign management experience, population employment and income increase), the main criterion of which is to maximize profits.

Currently, there is no single term for foreign investment, which is associated with the variety of forms and types of foreign investment. It seems important to note that the most common definitions of foreign investment are those specified in bilateral investment agreements on mutual protection and promotion of investments. Thus, foreign investments are interpreted as several types of material assets that investors of one of the parties make investments in the foreign territory of the other party in accordance with the legislation of the host state.

Most countries are currently publishing data on FDI inflows using the International Monetary Fund (IMF) methodology. For example, the Reserve Bank of India, when compiling statistics on FDI, displays only the share of participation of non-

residents in the authorized capital. Thus, reinvestment of profits and other investments are not taken into account, which does not meet international standards¹.

The most common definition of FDI in modern literature is the World Trade Organization (WTO) wording: FDI is an investment in which resident investors of several countries put their assets abroad. However, control over these assets must be maintained (Blackhurst, 1996).

According to United Nations Conference on Trade and Development (UNCTAD), foreign investments should be classified as FDI, providing for relations between partners on a long-term basis, which implies the involvement of the investor country with its control over an economic organization located in another country that is not the place of residence of the investor (UNCTAD, 2009).

Regarding the CIS, take for instance Russian Federation. Federal Law №160 of May 9, 1999 "On Foreign Investments in the Russian Federation" gives the following definition of FDI: Foreign direct investment - the acquisition by a foreign investor of at least 10 percent of a share, shares (contribution) in the authorized capital of a commercial organization, created or newly created in the territory of the Russian Federation in the form of a business partnership or company in accordance with the civil legislation of the Russian Federation; capital investment in the fixed assets of a branch of a foreign legal entity created on the territory of the Russian Federation; implementation in the territory of the Russian Federation by a foreign investor as a lessor of financial lease of equipment ..."².

The peculiarities of foreign direct investment include not only control over the acquired foreign assets of a foreign investor, but also "Influence on management" of the enterprise. It considers the main criterion of FDI according to international organizations (UNCTAD, IMF) and the Federal Law of the Russian Federation "On Foreign Investments" - the share of a foreign investor in the capital. By "influence on management" is meant the purchase by investors of at least 10% of shares in firms with the right to participate in the management of the organization in the host country.

1.2. Classification of FDI

The study should examine in detail the classification of FDI according to various indicators of their implementation, mainly strategy of doing business, economics science, based on motivation. Regarding the forms of investment expansion in foreign markets of FDI, following should be noted:

¹ About Make in India. "Make in India". <https://www.makeinindia.com/about>

² Federal Law №160 of May 9, 1999 "On Foreign Investments in the Russian Federation"

- construction of new enterprises abroad (the so-called Greenfield strategy or investments “from scratch”). Moreover, the company is wholly owned by a foreign investor;
- acquisition of operating enterprises abroad (this strategy is called Brownfield);
- create of joint ventures (JV) with different shares of foreign investments, as well as through the sale of shares to foreign investors.

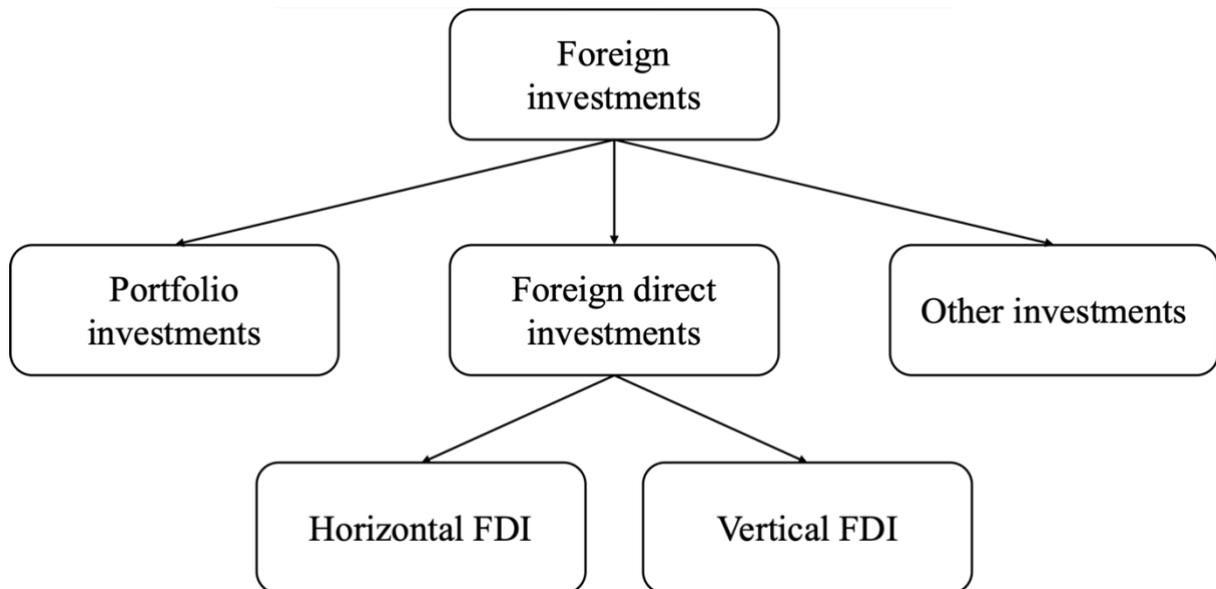


Figure 1.1 Structure of foreign

First, it seems important to consider the forms of FDI depending on the ways of conducting economic activities of multinational corporation. From the point of strategy of doing business, a distinction should be made between horizontal and vertical FDI as shown in the Figure 1.1.

For example, if a car manufacturing company opens a similar new factory overseas, then this is a horizontal investment. With such investments, the parent company invests heavily in the capital recipient economy. Obviously, these investments are made by corporations in order to gain access to new sales markets. Multinational corporations copy the same activities in different countries. The same goods are produced in foreign countries.

In the case of vertical foreign direct investment, multinational corporations divide the production chain vertically, and thereby, control certain stages of production in a foreign country, that is, place every stage of production in the country where it can be carried out at the lowest cost.

Multinational companies set up subsidiaries abroad as their own suppliers of production to provide the parent company with necessary parts and components. Vertical direct investment refers to the branches of overseas companies that purchase parts and production services from management companies and are located in the production chain behind the parent company. Therefore, the manufacturing process is divided into several production stages, requiring different consumables.

First, horizontal FDI minimizes the path of trade flows, due to the fact that the market is supplied not through exports, but through local production.

Second, when the investment cost is lower than the cost of imports, multinational companies prefer horizontal direct investment. The main goal is economies of scale. This form is intended for large markets, which will help reduce the company's fixed costs. The main differences between horizontal and vertical FDI are the reduction in production costs abroad and the inevitable costs of shipping goods back to the country of origin.

For abovementioned arguments, car manufacturing industry of Uzbekistan can be taken as an example. According to customs regulation, customs fee to import a car about 120 percent of the market price of importing car since there is a car producing monopoly is settled by local company.

Returning to the types of direct investment shown in the figure above, rest can be defined. The purpose of the investment portfolio is to generate income through changes in stock prices and exchange rates. Portfolio investments are carried out by companies that conduct international operations to solve financial problems and generate short-term profits [\(Sornarajah, 2009\)](#). Other investments include the following:

- trade credits, export and import crediting;
- bank deposits of foreign investors. For example, an account of a foreign company with a certain Russian bank;
- loans from foreign countries guaranteed by the government of the country, accepting capital;
- lending operations of large financial enterprises.

In 2004, a classification of foreign direct investment based on motivation was developed in economics. Next, we should consider the classification of FDI based on motivation in accordance with Table 1.2.

Most investments in countries with developing economies are resource-seeking. Today, countries rich in minerals are attracting companies wishing to extract and work over primary resources. Cheap labor is another of the most important drivers of resource-oriented investment.

Table 1.2 Purposes and specification of FDI by motivation

Types of FDI	Purposes	Characteristics
Resource-seeking	Access to natural resources (minerals, raw materials), search for cheap and skilled labor	This type is export-oriented. FDI is directed to foreign markets to obtain natural resources of higher quality and lower cost than in the investor's country
Efficiency-seeking	Economies of scale and risk diversification (some sectors can cover the loss of less efficient)	Optimization or integration of activities that lead to the creation of cross-border industries. FDI is carried out if the host country has higher production efficiency
Market-seeking	Market access (adaptation of goods to the specifics of the local market)	Follow clients to a foreign market to maintain business. Lower costs when overseas production is a cheaper to serve the market, for example, have low transportation costs
Strategic-asset seeking	Access to new assets and technologies	Mergers and acquisitions by multinational companies to achieve long-term corporate goals. For foreign companies, the acquisition of new technologies helps maintain international competitiveness in long-term

Source: [\(Dunning, 1980\)](#) [\(Dunning, 1988\)](#)

As for market-seeking investments, they are carried out by companies with the aim of developing previously carried out FDI and companies seek to capitalize on territorial differences in terms of culture, demand, institutional and economic policies and reach regional markets. Most companies take advantage of market-seeking investments when there is a risk of creating barriers to import. Creating barriers is one of the ways to protect the public company before reaching its peak of efficiency after implementation. It is typical for countries with transitional economy. Corporations have the ability to make large-scale market investments and then consolidate those procedures around a specific product. Therefore, this form of FDI is used in regional integrated markets, in particular, in Europe, Asia, Latin America. Corporations can make great efforts to distribute low-power production lines among several states in their vicinity. This can be seen in the example of the operation of Nestle branches located in the Middle East. A separate branch produces one specialized product for the regional market, and each of them imports the products of the “sister” branches from neighboring countries. The region gets access to the entire range of goods, while a separate branch is being responsible for the production of a limited segment.

Strategic-asset seeking investments are used in the acquisition of companies, the formation of alliances to achieve their medium and long-term strategic goals [\(Rondinelli](#)

& Black, 2000). For example, a multinational company may enter into a strategic alliance with a company located in another country to conduct joint research and development activities. Take for instance, merger of FIAT and PSA, shareholders of both corporations voted to merge in order to be capable to survive in an industry ravaged by technological change and pandemic³. This type of FDI is widely used in developed economies.

Under modern conditions, companies using FDI mechanisms have different complex goals, resulting in a combination of characteristics of different types of investments. In economics, foreign direct investment is also classified according to the following main characteristics:

- i. relative to the object:
 - tangible assets, this refers to investments in equipment, stocks of finished products;
 - intangible assets, namely investments in personnel training, advertising and R&D.
- ii. by the nature of use:
 - initial investments made in purchasing the enterprise;
 - investments aimed at expanding production capacity;
 - investment in rationalization. That means investments aimed at modernizing technological processes, replacement of existing equipment with new in order to ensure the survival of the enterprise in the future;
 - investment in R&D, environmental protection, advertising.

It should be noted that with the inflow of FDI into the country's economy, the competitiveness of local companies is growing. To maintain competition between them, it is necessary to improve the quality of the products and the reliability of suppliers. It is evident that the cooperation of local companies with foreign companies stimulates suppliers and competitors to invest in business, introduce innovations. As a result, the quality of the products increases and lowers the price. Thus, the efficiency of local companies is increasing, and well-being of the population is growing. Therefore, almost all countries in the world are seeking to stimulate the inflow of FDI into the economy of their country *(WB, 2020)*.

1.3.Evolution of integration processes within the CIS

The CIS is an integration type of organization focused on achieving financial and economic goals. This type also includes such regional economic organizations as the European Union (EU) and Eurasian Economic Union (EAEU). In other words, the CIS is

³<https://www.nytimes.com/2021/01/04/business/flat-chrysler-peugeot-psa-merger.html>

an interstate regional organization, which includes 11 states. Initially, the Agreement on the establishment of the union in 1991 was signed by such countries as Belarus, Russia and Ukraine. In the same year, seven more sovereign states (Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan and Uzbekistan) became members of the association. The meeting participants adopted the Alma-Ata Declaration. In 1993, Georgia also joined the CIS. In 2005, Turkmenistan announced its intention to appear in the union as an “associate member”. Georgia left the CIS in 2009 due to geopolitical conflicts. One of the main goals of union is - development and deepening of cooperation in the political, economic, environmental, cultural and legal fields.

Regional economic integration is a key stage in the convergence of the national economies of the CIS countries. In modern scientific literature, there are many different definitions of the term “Integration”. The greatest recognition in economic science was received by Hungarian economist B. Balassa's position, according to which, integration is a process of state, including a set of political and economic measures designed to eliminate various forms of discrimination between states. B. Balassa developed the five levels of economic integration, which are the most famous at the present time [\(Balassa, 1961\)](#):

1. Preferential trade agreements. These are agreements between the countries of the union, through which they receive more favorable conditions in the form of a reduction in customs duties and taxes in comparison with third countries.
2. Free-trade zones. A type of integration in which trade barriers are completely abolished in the member states of the union (taxes and customs duties).
3. Customs unions. This association removes trade barriers between countries and establishes a single set of tariffs for third countries.
4. Common markets. Within the framework of this union, the free movement of all factors of production is carried out.
5. Economic Union. This is the most complete and closest form of economic integration, which implies complete harmonization of monetary, tax, industrial, socio-economic policies. Establishment of a unified model of economic development. An example of the highest form of economic integration is the EU.

According to another economist from Germany, F. Machlup's theory, integration is a more efficient use of the potential of the new international division of labor (NIDL). Integration refers to the process of integrating individual economies into a larger economic region. In his work devoted to the study of the integration process, the economist noted that communications and cheap transport are key factors in the development of economic integration [\(Machlup, 1975\)](#).

Analysis of trends in the modern world economy shows that the formation of integration institutions contributes to the development of regional associations⁴. The intensification of integration processes is one of the important vectors for the development of the CIS countries. Studying the evolution of integration groups in the post-Soviet space allows us to distinguish three stages:

- The first stage (1991-1995). This stage is characterized by the collapse of the USSR and the formation of the CIS. In 1990, the CIS countries experienced a shortage of money supply and a high level of inflation, which contributed to a reduction in the income of private business and the population. This period is characterized by an unfavorable foreign economic situation, ethnopolitical and civil conflicts. Structural changes in the economy, a reduction in GDP growth contributed to a decrease in FDI volumes between the countries of the union. However, in the following years, FDI played an important role in stimulating the countries' foreign trade. For example, in Azerbaijan and Kazakhstan, attracting long-term direct investment has involved the discovery and free access to oil and gas fields for foreign investors. Attracting foreign direct investment has led to an increase in imports of the latest equipment.
- Second stage (1996-2009). This stage is characterized by the creation of such sub-regional associations as the Shanghai Cooperation Organization (SCO), the Union State of Russia and Belarus, and the Eurasian Economic Community (EurAsEc). It should be noted that the SCO has great economic potential due to the fact that it includes China. In 2000-2007, in the CIS countries there was an acceleration of economic growth in the countries of oil and gas exporters (Russia, Kazakhstan, Azerbaijan, Turkmenistan), however, the global financial crisis of 2008-2009 years stopped this growth.
- Third stage (2010-2015). Creation of the Customs Union and the EAEU. Integration processes within the EAEU are a continuation of the activities of the EurAsEC. Currently, Russia and Kazakhstan are the main economic partners for all countries of the union.

The intensification of integration processes within the CIS is associated with the development of infrastructure. As shown in table 1.3, within the framework of the union, the most developed infrastructure is in Azerbaijan (47th in the world out of 140 countries), and in Russia (52nd in the world). Of all types, the railway infrastructure is the most developed in the whole region. The analysis of the rating allows us to conclude that countries need to improve the quality of road infrastructure since lots of transportations among the cities and countries carried out by trucks. It is the most common way of

⁴ https://www.wto.org/english/tratop_e/region_e/region_e.html

logistics in the CIS except Russia. Tajikistan, Kyrgyzstan, Moldova needs deep modernization.

Table 1.3 Ranking of the CIS countries by the quality of infrastructure

Countries	Infrastructure quality in general	Road infrastructure	Railway infrastructure	Airport infrastructure	Port infrastructure
Russia	52	103	16	52	46
Azerbaijan	47	35	18	12	28
Kazakhstan	68	105	35	81	91
Tajikistan	86	45	46	78	139
Armenia	75	86	77	79	118
Ukraine	58	122	36	93	77
Kyrgyzstan	108	117	88	129	139
Moldova	78	131	73	81	124

Source: [\(Schwab, 2019\)](#)

As depicted in Table 1.4, according to the World Economic Forum (WEF), the CIS countries have a low quality of institutional development. The weakest indicators are the independence of the judiciary, protection of property rights, protection of intellectual property rights and the reliability of financial statements. Insufficient development of institutions leads to an increase in transaction costs, which is one of the limiting factors for ensuring financial stability within the union. Low indicators of the quality of institutions can be an obstacle to attract FDI into the economies of the CIS countries [\(Mihaela Peres, 2018\)](#).

It should be added that not enough attention is paid to the development and implementation of advanced technologies in the CIS. In terms of technical development and innovation, the CIS countries are currently clearly inferior to the industrialized countries. Analysis of the information presented in Table 1.5 allows us to reveal that Russia among all the CIS countries is the leader in the quality of research institutes and ranks 12th in the world according to the report of the World Economic Forum.

In terms of R&D expenditures, the CIS countries are clearly inferior to the developed countries (in developed countries, R&D spending averages 3% of GDP), making the region under study less attractive to long-term investors. It is necessary to implement a comprehensive investment policy concept, the main direction of which will be to intensify cooperation between the parties in the field of innovation. This will allow the CIS countries to find new forms of economic cooperation and become a factor in strengthening their activities in the modern world economy.

Table 1.4 Ranking of the CIS countries on the quality of institutions

Indicators	Russia	Kazakhstan	Ukraine	Azerbaijan	Armenia	Tajikistan	Kyrgyzstan	Moldova
Transparency of budget	9	91	50	117	50	104	50	37
Independence of the judicial system	91	72	116	48	84	59	98	129
Effectiveness of legal mechanisms in resolving disputes in business	79	71	104	29	69	36	99	121
The effectiveness of legal mechanisms for challenging the activities of the state	78	64	106	21	60	43	87	119
Protection of IP rights	86	75	115	37	67	64	112	117
The quality of corporate audit and the reliability of financial reporting	88	99	119	87	86	102	124	106
The quality of institutions in general	73	62	111	59	68	82	89	85

Source: [\(Schwab, 2019\)](#)

Table 1.5 Ranking of countries by the quality of research institutions

Indicators	Russia	Kazakhstan	Ukraine	Azerbaijan	Armenia	Tajikistan	Kyrgyzstan	Moldova
Quality of research institutes (ranking)	12	83	44	85	79	113	112	107
R&D expenditures, as a % of GDP	1,1	0,2	0,7	0,4	0,3	0,1	0,1	0,3

Source: [\(Schwab, 2019\)](#)

2. PECULIARITIES OF FDI IN THE CIS

2.1. Regulation of FDI: global experience and practice in the CIS

As world practice has shown, FDI is an important factor in the development of the national economy. Over the past decades, the United States and China have ranked first and second, respectively, in the world in attracting direct investments (*UNCTAD*, 2021). Thus, it seems appropriate to take into account the experience of People's Republic of China (PRC). In author's opinion, there are two factors that have made China one of the most attractive countries for FDI inflows:

1. China's market is the largest in the world. Many abroad companies are investing in China to gain access to the Chinese market.
2. ethnic Chinese living abroad but maintaining ties to their ethnic homeland. Hong Kong and Taiwan's foreign direct investment in the Chinese economy accounts for about two-thirds of all foreign investment⁵. There are more than 25 million ethnic Chinese in Taiwan and more than 6 million in Hong Kong. Ethnic Chinese liquid assets are estimated at about 2 trillion \$.

The PRC has also played a leading role in attracting FDI⁶. The country continues to effectively develop new procedures to increase FDI inflows by developing market institutions. Expanding exports by attracting FDI has helped China accumulate the required foreign exchange reserves to modernize production, which stimulates FDI inflows.

For several years, the government of the PRC has been ensuring political stability and predictability of the state's economic policy, which is an important incentive in attracting FDI. The state supports FDI by introducing a large number of tax breaks, tax holidays for companies with foreign capital. The Chinese government has removed many barriers. For example, before joining the WTO, multinational corporations were not allowed to invest through mergers and acquisitions. This is the most common mode of operation for multinational corporations. Therefore, the Chinese authorities lifted the barriers. The PRC is implementing a policy aimed at increasing the inflow of FDI into the economy in the most priority areas, regions and industries. In this regard, the Chinese authorities began to implement consistent liberalization of the economy and foreign trade, and also allowed foreigners to dominate a controlling stake in sectors that were previously closed. These sectors include, in particular: metallurgy, food processing, production of

⁵ IMF database <https://data.imf.org/regular.aspx?key=61227426>

⁶ <https://www.oecd.org/newsroom/reformscouldboostchinasabilitytoattractforeigninvestment.html>

various consumer goods and the automotive industry. The strategy of attracting FDI to the Chinese economy is based on the gradual expansion of economic openness.

Over the past decade, the United States has been one of the leaders in attracting FDI to the country's economy *(UNCTAD, 2021)*. According to the US Department of Commerce, the US government has not developed major national programs to attract FDI over the past several years. However, each state independently searches for foreign partners. Direct investment is attracted by American corporations without government assistance.

In 2011, the US government implemented a program called Select USA. The program is designed to encourage and increase business investment in the United States by both American and foreign companies, which is the main driving force for economic growth and job creation in the United States. SelectUSA provides improved coordination of available resources from both federal and state US ministries, agencies, and also private companies within the US Department of Commerce to encourage and facilitate doing business in the country⁷.

There are also several factors in the US that directly influence FDI attraction. First, the United States is the world leader in the sphere of protection of intellectual property rights. This means of the protection of innovations, which is very important for foreign investors, since they gain large profits for them. Secondly, the United States has a relatively high-quality and fair legal system, which is also important for stimulating FDI in the economy. Third, one of the most important factors is the US transportation infrastructure. The country is closely connected with the world through seaports, airports, roads and railways. Fourth, the leading universities in the world are located in the United States. This allows US to attract “the best minds” from all over the world.

India is quite an attractive country for attracting FDI as well *(UNCTAD, 2021)*. This fact, first of all, is associated not only with the size of the domestic market, but also with the low cost and high qualification of the labor force. Moreover, the country is ranked 4th in the world for the number of startups in technology and IT. It is important to note the role of the government of India in attracting FDI. Over the past 15 years, the country's authorities have adopted several changes in the field of foreign investments which have contributed to the inflow of FDI into the Indian economy. The main changes are as follows:

- in order to liberalize the market, India removed a number of restrictions in the field of foreign exchange controls, which were previously applied to foreign

⁷. <https://www.selectusa.gov/FDI-in-the-US>

organizations with a significant share of capital in the sectors of the national economy;

- the country lifted the ban on the use of foreign trademarks;
- according to the Income Tax Law, both Indian and foreign companies are exempt from tax on export income;
- de-bureaucratization: acceleration of decision-making, development of electronic government, electronic systems for filing documents and approving documents;
- reforming the taxation system: reducing the number of indirect taxes, reducing document circulation;
- infrastructure development: creation of 100 “smart cities”, construction of a high-speed train network linking major metropolitan areas of India, reform of the port structure, all ports are registered as companies, which will attract FDI.

Improving the investment climate and the Make in India program which are creating conditions for Indian and foreign investors in order to organize production in India within 25 crucial industries (automotive, pharmaceuticals, IT and others). In modern conditions, 100% of FDI is allowed in all sectors of the economy, except from the space industry (74%), defense production (49%) and media (26%). The program also includes the further development of free economic zones. Through reforms, the Indian government is encouraging FDI inflows to various industries of the economy. Regarding the construction of bridges, roads, the Reserve Bank of India allows 100% foreign investment. The most attractive sectors for foreign investors are such as: automotive, software and IT services, financial services, transport. In these sectors, major projects are being created to attract FDI to the Indian economy.

Taking into account abovementioned cases, the following conclusion can be drawn: formation of favorable investment climate can be a key to reach a moderate rate of economic growth, renewal of production assets, create new jobs, innovative development of economic sectors. Thus, it seems appropriate, firstly, to create favorable conditions for investors in order to maximize the inflow of FDI and reduce the export of capital from the country, and secondly, to create a transparent investment policy on the part of the state.

It is necessary to consider how FDI is regulated at the present stage. In world practice, a multilevel system of FDI regulation follows. The first level of regulation of the process of foreign investment is international agreements affecting the interests of almost all participants in the process of foreign direct investment. These agreements cover issues that are global in nature. The second level of regulation of the investment process includes regional interstate agreements, which cover individual integration associations. The next level includes bilateral interstate agreements. And the final level of regulation

is the National Legal System. According to the author, the provisions of state legislation should not contradict the principles of FDI regulation at the international level.

Analysis of the information presented in Table 2.1 led to the conclusion that in the process of FDI regulation by international economic organizations, a significant role belongs to: IMF, the Multilateral Investment Guarantee Agency (MIGA). These organizations have developed several regulatory documents that govern the principles of international investment. The Seoul Convention of 1985 is an important treaty in the field of foreign direct investment. The Seoul Convention was created to stimulate the inflow of foreign capital to emerging economies by providing guarantees to foreign investors in process of emerging non-commercial risks [\(MIGA, 1985\)](#). International investment agreements (IIA) are the main type of regulation of the process of foreign investment at the global level. They spell out the main measures to regulate foreign investment between states. IIA participants are national governments of various countries and a number of intergovernmental economic organizations: the World Trade Organization (WTO), the World Bank Group (IBRD, IDA, IFC, MIGA, ICSID).

These agreements were mainly concluded in the 1990s. Initially, bilateral investment treaties (BIT) were concluded between European countries. However, the relevance of these types of agreements has significantly decreased due to the absence of barriers to the movement of capital. During the same period, the process of concluding such agreements between developing countries have begun. It seems important to note that the main elements of BITs in the field of FDI are:

- a declaration between the parties on the principles of their relationship;
- types of bilateral cooperation;
- the main stages of the implementation of the provisions of the agreement;
- mechanisms to protect foreign investors.

The Multilateral Investment Guarantee Agency (MIGA) plays an important role in stimulating international capital. This agency is a member of the World Bank Group.

This agency provides guarantees against non-commercial risks. In particular, non-commercial risks mean violations of contracts, civil unrest, restrictions on currency transfers. It should be noted that guarantees in the form of investments are provided only for risks that arise in developing countries and that are members of MIGA. FDI is the object of guarantees. This agency stimulates FDI, regulates disputes between investors and host countries.

Table 2.1 Institutional framework for attracting foreign direct investment

Level of agreement	Basic principles	Regulations	Regulatory authorities
1	2	3	4
International agreements	<ul style="list-style-type: none"> - stimulating the creation of joint public-private firms; - ensuring both domestic and foreign investors equal rights in the implementation of their activities; - ensuring great freedom for the movement of capital and technology, creating measures to compensate for the damage that is inflicted on foreign investors. 	<ul style="list-style-type: none"> - Agreement on Trade-Related Investment Measures (TRIM); - General Agreement on Trade in Services (GATS); - Seoul Convention on the Encouragement and Reciprocal Protection of Investments; - Washington Convention 1965. 	<ul style="list-style-type: none"> - WTO - World Bank Group - UNCTAD
Regional agreements	<ul style="list-style-type: none"> - stimulating the creation of joint public-private firms; - ensuring both domestic and foreign investors equal rights in the implementation of their activities; - ensuring great freedom for the movement of capital and technology, creating measures to compensate for the damage that is inflicted on foreign investors. 	Voluntary FDI Code	<ul style="list-style-type: none"> - European Union (EU); - The Organization of Asia-Pacific Cooperation; - Association of Southeast Asian Nations (ASEAN); - MERCOSUR; - CIS.
Macro level National agreements	<ul style="list-style-type: none"> - provision of state guarantees to investors; - settlement of investment disputes; - insurance; - avoidance of double taxation; - administrative support; - protection of the strategic interests of the state and domestic entrepreneurs - ensuring general economic and social stability in society. 	<ul style="list-style-type: none"> - Investment codes and laws of the state; - The Constitution of the country; - Decrees of the President; - Normative acts of ministries and departments. 	<ul style="list-style-type: none"> - President - Government - Parliament - Ministries

1	2	3	4
Micro level Companies	Implementation of intergovernmental agreements and contracts between corporations	- National and local civil, administrative legislation; - regulations of government agencies in the field of FDI.	Board of directors of companies

The increase in jobs, the modernization of the production process, the improvement of investment in certain industries and the entire economy of the country require foreign investment, this is the rationale to attract them. On this basis, it should be noted that FDI regulation is necessary because, first of all, it enables the State to control foreign investors in certain economic sectors. Second, create effective conditions to attract long-term FDI and minimize capital outflows. The attraction of a large amount of foreign direct investment depends on the investment policy of the country itself. Changes in international FDI markets require capital outflows from countries because the state control system over investment activities does not meet the requirements of economic development. Effective government regulation based on principles that meet international standards helps improve the country's investment climate, thereby attracting foreign direct investment. After examining the institutional framework to attract and regulate FDI, important recommendations can be derived to improve the investment climate.

It should be noted that legislation in the field of direct investment is problematic, in particular, many international laws have not found a suitable place in the guaranteed system. As foreign practice shows, it is necessary to practice multilateral agreements in the field of guarantees and mutual protection of investments, the participation of the CIS countries in all global mechanisms for the resolution of disputes in the field of investments. Effective and widespread application of all principles of international agreement is required. It is important to apply the criteria that are formed in international practice which are mentioned in the beginning of the chapter. It seems necessary to create an effective most-favored-nation treatment for investors, which will allow attracting investments in science, education and medicine. State regulation of FDI is based on the application of the norms and institutions of the traditional branches of law, special laws in the form of investment laws and laws of each country. This legislation is based on legal guarantees and conditions for foreign investors in the host country. Nowadays, the government has been strongly supporting the attraction of FDI through administrative assistance and by providing state guarantees for both domestic and foreign investors.

The provision of guarantees is carried out by the home country and the recipient country. This means that investors investing their funds in a foreign state can count on

guarantees of their investments, both from foreign and from their own state. Countries that seek to increase capital exports can provide companies with guarantees for the return of the entire amount of investment funds from government sources in the event of any unforeseen circumstances. For example, natural disasters, currency inconvertibility. A foreign investor purchases insurance against the risks specified in the insurance, which has a price of less than 1% of the total investment amount. Disputes, in turn, are regulated by the domestic legislation of a particular investor. There is a danger that the governments of the countries may impose additional income taxes on the investor if the company operates in several countries. Therefore, at the state level, corporations need to sign agreements to eliminate double investment. The state uses certain tax incentives (lower rates of customs duties), tax holidays, tax credits, investment discounts and subsidies.

It seems important to consider each of the forms of tax incentives. Tax holidays mean the exemption of a private investor from paying taxes within the time frame specified by law. The tax credit system is the most simple and effective. A tax credit is understood as a deduction from the profit tax of a certain amount of the organization's expenses for investment expenses, taking into account the use of this credit loan for further investments. With accelerated depreciation, a large part of the profit is related to production costs and, thus, is exempt from tax. Indirect tax stimulation is carried out in the form of excluding raw materials from VAT taxation, maintaining a conditionally duty-free import system. These incentives are used to stimulate exports.

The main mechanisms for attracting FDI from the CIS country are: creation of joint ventures; the formation of free economic zones (FEZ) with the aim of actively attracting FDI to certain regions of the country; attraction of direct investments on the basis of concessions and Public-private partnership (PPP); registration on the territory of the country of companies fully owned by foreign investors. For example, to stimulate foreign investment in Russia, special economic zones (SEZ) are widely used. There are 26 SEZs of different types: 10 industrial and production, 6 technology and innovation, 1 port and 9 tourist and recreational zones. There are several tax benefits in these zones such as total reduction of cost up to 30% from initial investments, free customs which means 0% customs duties for import equipment, components and materials into SEZ, 0% VAT for import of equipment, components and materials into SEZ, 0% customs good for finished goods exported outside The EuroAsian Custom Unions ⁸.

To achieve a positive effect from economic integration between the CIS member states, it is necessary to develop a unified investment policy in the field of attracting FDI, which does not contradict international standards. It is important for the CIS countries to

⁸ SEZ video presentation by Ministry of Economic Development of the Russian Federation
<https://www.youtube.com/watch?v=HvZqVKPIQkE>

support the PPP mechanism in order to attract mutual FDI in the field of high technologies. At the moment, between Russia and all CIS countries, bilateral investment agreements have been signed and entered into force. The legal framework for investment cooperation can be classified as follows:

The first stage: in the period from 1994 to 1999 within the CIS - agreements on the avoidance of double taxation were signed.

Second stage: 2000-2002 - characterized by the entry into force of agreements on mutual protection and promotion of investments. This type of signed bilateral documents is necessary for the development of mutually beneficial economic cooperation between the CIS partner countries. Today, at the regional level, the governments of the Union countries regulate FDI carried out under the Ashgabat Agreement. It should be noted that the Agreement in the field of investment activities was signed in Ashgabat on December 24, 1993. However, in 2002 Russia made a decision to exit from the Agreement in connection with existing bilateral agreements with the CIS member states. The next stage in the development of investment cooperation is the 1997 Investor Protection Convention. However, Russia did not join this agreement. The norms of the document affect various forms of investment and apply to investors not only from the countries of the parties to the Convention, but also from foreign countries. But the Convention does not clearly define the criteria and mechanisms for compensation for a private investor. In this regard, bilateral agreements are the most common. With the aim of successfully implementing mutual projects, enhancing investment interaction within the framework of the EAEU Treaty, there is a multilateral Agreement on the Encouragement and Protection of Mutual Investments of the Member States of the Integration Union.

Thus, it is necessary to develop a multilateral Agreement on the encouragement and mutual protection of investments of the CIS member states and to consider in the future the possibility of accession of the Union countries to the Organization for Economic Co-operation and Development (OECD) Declaration on International Investment and Multinational Enterprises of 1976. To date, Russia and the CIS countries have signed and entered into force bilateral investment agreements. Preparation of a multilateral document will allow the countries of the regional association to obtain certain advantages:

- formation of uniform rules for the regulation of foreign direct investment. Harmonization of the laws of the member states of the regional association in the field of foreign direct investment will contribute to the creation of a unified state investment policy based on the principles of stability, transparency and predictability of the investment process;

- the creation of uniform rules and standards for FDI will increase coherence between national investment policies and reduce the uncertainty of investors and contracting parties.

Currently, only Kazakhstan from the CIS countries is a member of the Declaration (a total of 50 member countries). Accession to the Foreign Investment Agreement will provide a number of benefits:

- development of business responsibility standards, and as a result, improvement of the investment climate;
- creation of new rules and regulations for the regulation of AI based on the use of foreign practices;
- multinational corporations (MNCs) are the main driving force FDI.

Tracking business interests based on international standards will help attract direct investment.

2.2.Factors and features of direct investment in the CIS countries

One of the main mechanisms for maintaining sustainable economic development is the inflow of long-term foreign investment as an alternative to domestic direct investment. All member countries of the CIS integration association are interested in attracting FDI. The globalization of the economic space contributes to an increase in production efficiency, competitiveness and quality of products. It should be emphasized that the FDI process allows countries to finance projects that are strategically important for the economy and cover state budget deficits. To improve the economic component of the CIS countries, as well as their interaction in the field of FDI, it is necessary to consider modern directions for attracting direct investment in the national economies of states and solve the problems that need joint activities.

In the CIS countries, a weak economic development was revealed, a net capital outflow was noted, which implies the difficulty of using FDI as the main factor in the development of economic cooperation between the member countries of the integration association. Today, the main factors that prevent the attraction of direct investment in the CIS economy are:

- differentiation of macroeconomic indicators, administrative barriers;
- lack of unified legislation within the CIS in the field of investment activities;
- high level of bureaucracy;
- dependence of the national economies of some CIS countries on oil prices on the world market;
- weak development of the financial market.

In modern economic relations, international economic and trade associations play a significant role in expanding cooperation between states in the field of FDI. The analysis presented in Figure 2.1 allows us to note that in 2018, inward FDI to the G20 countries reached the highest record level, which accounted for more than 67% of total FDI stock in the world. In the second place in terms of the volume of attracted direct investments in the world are the countries participating in the Asia-Pacific Economic Cooperation (APEC) (65%). As can be seen in Figure 2.1, in 2018 the smallest inflow of inward FDI fell on the CIS economy, in particular 25.6 billion \$ (2% of the global volume). The values of these indicators specify certain difficulties in the use of direct investment as the main factor in the development and deepening of economic cooperation between the CIS countries at the present stage.

At the end of 2018, FDI stock in Russia accounted for 51.5% of the total volume of foreign investments. For other and portfolio investments 27% and 21.5%, respectively. In Kazakhstan, the total volume of imported direct investments is 160 billion \$, while the accumulated other and portfolio investments in the country exceed 40 billion \$ and 18.4 billion \$, respectively. According to the IMF, in the rest of the CIS partner countries at the end of 2018, the largest part of foreign investments was carried out in the form of other investments, the smallest in the form of portfolio investments, which is shown in Figure 2.2.

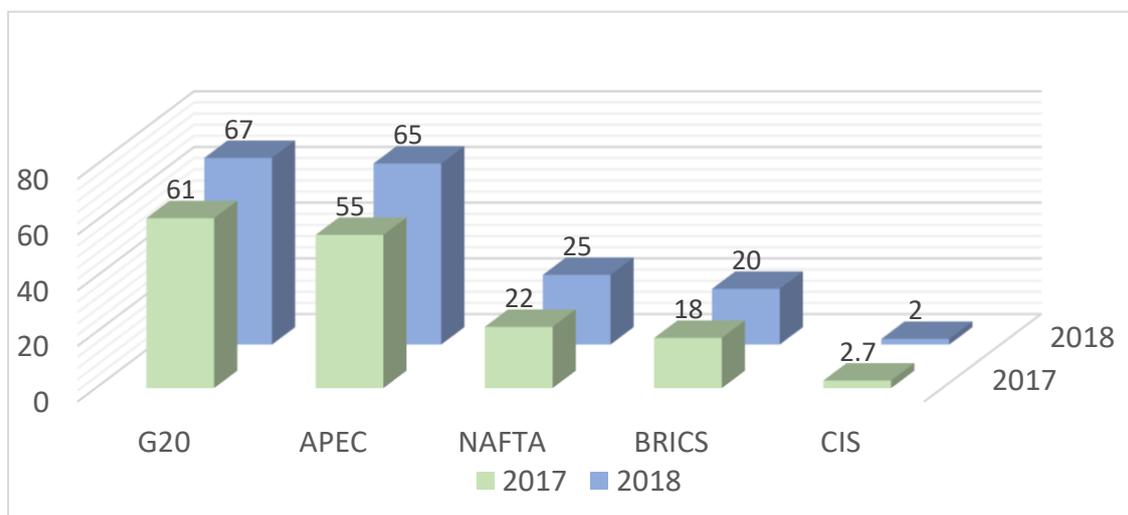


Figure 2.1 FDI inflow to the international unions 2017-2018, in percentage

Source: [UNCTAD, 2019](#)

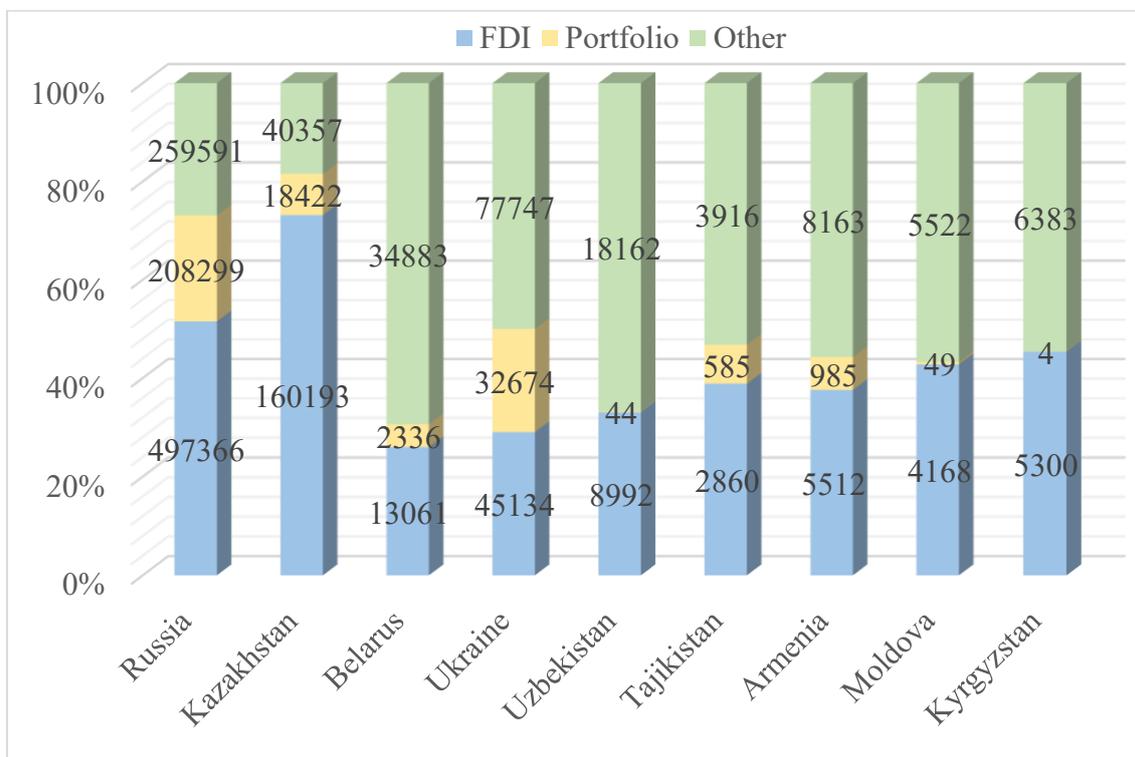


Figure 2.2 Accumulated foreign investments in countries by type of investment (by the end of 2018), USD million

Source: IMF database⁹

Regarding outbound foreign investments within the union, Russia is the leader in terms of accumulated FDI abroad (435.9 billion \$). The export of portfolio investments from Kazakhstan significantly exceeds other and direct investments. In other CIS member states, other investments are the main type of outgoing investments, as shown in Figure 2.3. Thus, in the structure of accumulated foreign investments of CIS countries abroad, the largest share falls on other investments. Portfolio investment is the least attractive form of foreign investments. However, it is necessary to intensify the cooperation of the CIS countries in the field of foreign direct investment. This is due to the fact that FDI is not only money, but also the attraction of modern technologies.

The particular interest is the comparison of the dynamics of cross-border FDI flows in the CIS countries in 2017-2018, which is presented in Table 2.2.

Thus, at the end of 2018, 5 out of 11 countries of the Union noted a decrease in FDI inflows. A decrease in FDI at the end of 2018 was recorded in Azerbaijan (51.1%), Russia (48.6%), Kazakhstan (18.2%), Ukraine (9.5%) and Turkmenistan (4.8%). In other countries, CIS noted an increase in the inflow of FDI. The total volume of attracted

⁹ IMF database <http://data.imf.org/regular.aspx?key=61227426>

investments in 2018 across all CIS countries decreased by more than 1.5 times (36.2%). FDI inflows from the Union countries abroad decreased by only 1.8%. The decline is due to imposed sanctions against Russia. Inflow of FDI to Russian economy decreased about 50% and it effected to whole CIS region since its economy the biggest among the post-soviet countries

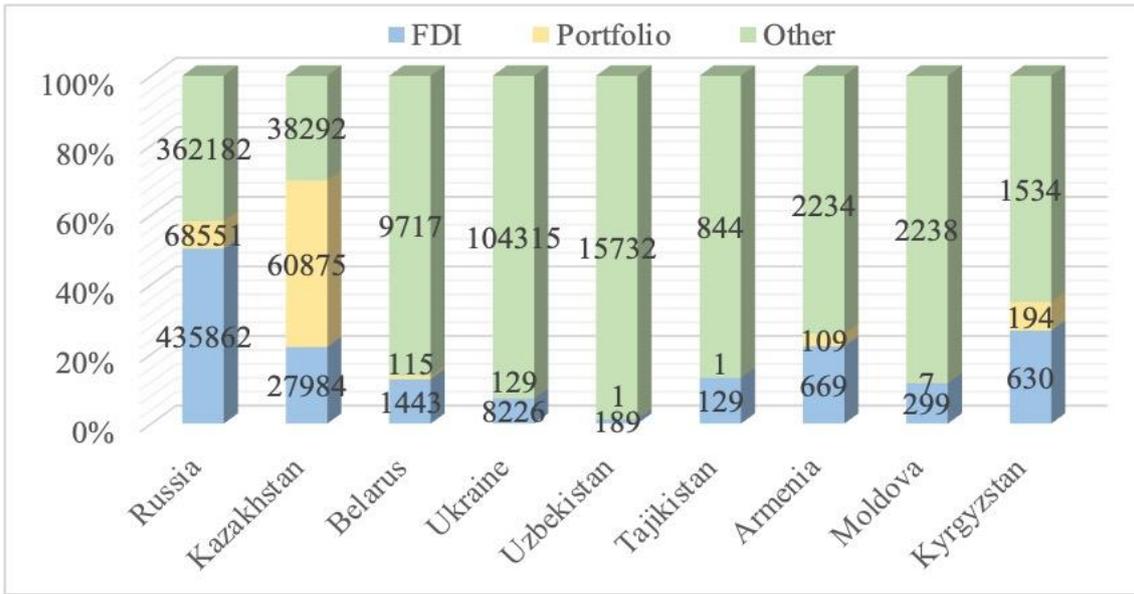


Figure 2.3 Outflow of investments of CIS countries abroad by type of investment (by the end of 2018), USD million

Table 2.2 Amount of FDI in CIS countries

Country	Inflow of FDI			Outflow of FDI		
	2017	2018	Growth rate, %	2017	2018	Growth rate, %
Russia	25 954	13 332	-48,6	34 153	36 445	6,7
Kazakhstan	4 669	3 817	-18,2	913	-1 103	-220,8
Belarus	1 279	1 469	14,9	70	36	-48,6
Ukraine	2 601	2 355	-9,5	8	-5	-162,5
Azerbaijan	2 867	1 403	-51,1	2 564	1 761	-31,3
Tajikistan	270	317	17,4	159	57	-64,2
Armenia	250	254	1,6	22	-12	-154,5
Moldova	163	228	39,9	14	31	121,4
Kyrgyzstan	-107	47	143,9	-29	1	-103,4
Uzbekistan	98	412	320,4	-	-	-
Turkmenistan	2 086	1 985	-4,8	-	-	-
CIS	40 130	25 619	-36,2	37 874	37 211	-1,8

According to the IMF, at the end of 2018, Russia, Belarus, Kazakhstan and Azerbaijan have a positive financial account balance (excluding reserve assets), which means a net outflow of financial resources from the respective countries. In 2017-2018, in most of the CIS countries, FDI flows (outbound and inbound direct investment) exceed the volume of other and portfolio investment, which is presented in Tables 2.3 and 2.4. The highest value of this indicator was recorded in Russia - 76.5 billion \$. In the rest of the CIS countries, capital inflows into national economies exceed capital outflows, which is reflected in Table 2.4.

Table 2.3 Financial account balance of balances of payments of EEU countries, USD million

Indicators	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
	Russia		Belarus		Kazakhstan		Armenia		Kyrgyzstan	
Financial account balance (except reserve assets)	12173	76522	-1730	329	-5478	2632	-607	-713	-432	-2333
Assets										
Direct investments	36757	31377	678	55	957	-4644	29	7	-29	5
Portfolio investments	1258	-1827	-7	81	-3247	-998	31	14	25	10
Derivatives	-13785	-11708	-1	7	-32	96	0	0	-15	0
Other investments	-9369	22007	61	1658	4541	3525	-233	137	-352	45
Liabilities										
Direct investments	28557	8785	1276	1427	4713	214	251	254	-107	144
Portfolio investments	9241	-9421	1258	-505	2151	-3531	-57	-19	0	1
Derivatives	-14147	-10975	-1	2	-147	-13	0	0	-12	-1
Other investments	-20963	-25063	-683	547	981	-1222	238	637	181	149

Table 2.4 Financial account balance of balances of payments of CIS countries, USD million

Indicators	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
	Azerbaijan		Tajikistan		Uzbekistan		Ukraine		Moldova	
Financial account balance (except reserve assets)	878	6381	-406	-234	-571	-1411	-4530	-5501	-1083	-1476
Assets										
Direct investments	2564	1761	123	-28	9	2	234	116	11	42
Portfolio investments	-81	819	0	0	0	0	3	33	0	2
Derivatives	-4	1	0	0	0	0	0	0	0	0
Other investments	3616	5399	320	78	2823	1548	629	1996	-446	-620
Liabilities										
Direct investments	2868	1403	186	221	1797	625	2827	2476	154	312
Portfolio investments	2588	-422	500	0	3	13	1803	2113	0,2	-2
Derivatives	0	0	0	0	0	-1	0	0	0,4	-1
Other investments	-238	619	163	63	1602	2325	766	3057	492	591

Currently, in the CIS space, investment in new projects (“Greenfield”) is the main form of FDI. The share of investments in the form of mergers and acquisitions in 2018 in the CIS accounted for 2.3 billion \$ (decrease of about 6 times compared to 2017), which is presented in Table 2.5. The total volume of investment in new projects increased from 29 billion \$ to 38.9 billion \$. In Russia, Greenfield's investment totaled 18.4 billion \$. This confirms that there are prospects for deepening cooperation between the CIS countries in this direction. The largest growth in 2018 was recorded in Ukraine and in Uzbekistan. It is important to note that mergers and acquisitions transactions have

declined in virtually all CIS countries. The largest decrease was noted in Russia to 2.7 billion \$.

In 2018, the volume of accumulated direct investments by the CIS countries exceeded 714 billion \$. From 2000 to 2018, total FDI in the CIS increased 14 times. However, the share of stock of FDI in Russia exceeds the total level of stock of FDI of all other CIS partner countries.

Table 2.5 FDI distribution by main directions, USD million

Country	Greenfield		M&As	
	2017	2018	2017	2018
Russia	17063	18426	12585	2668
Moldova	102	196	-	27
Armenia	617	597	-	-
Tajikistan	-	32	-	90
Uzbekistan	1317	5074	3	-215
Belarus	748	1255	11	6
Ukraine	1663	3306	-7	4
Kazakhstan	6502	6985	7	-317
Kyrgyzstan	61	135	-	-
Azerbaijan	946	273	-	-
Turkmenistan	-	2650	-	-
CIS	29019	38929	12599	2255
EU	156677	193472	139441	361943
World	697734	980669	693962	815726

At the end of 2018, the volume of FDI stock in Kazakhstan exceeded 149.3 billion \$, which is significantly higher than the FDI value in 2000 (10 billion \$), as shown in Figure 2.4. For the rest of the CIS countries, as of the end of 2018, the volume of attracted FDI is insignificant compared to Russia and Kazakhstan. It can be concluded that Russia is the main recipient of foreign direct investment within the union.

By the end of 2017, the volume of long-term direct investments from Russia accumulated abroad was noted in the amount of USD 344.1 billion (this figure in total for all CIS countries amounted to USD 393.7 billion).

Analysis of the data in Table 2.6 allows us to conclude that in almost all CIS countries in the structure of FDI, the largest share falls on investment in authorized capital.

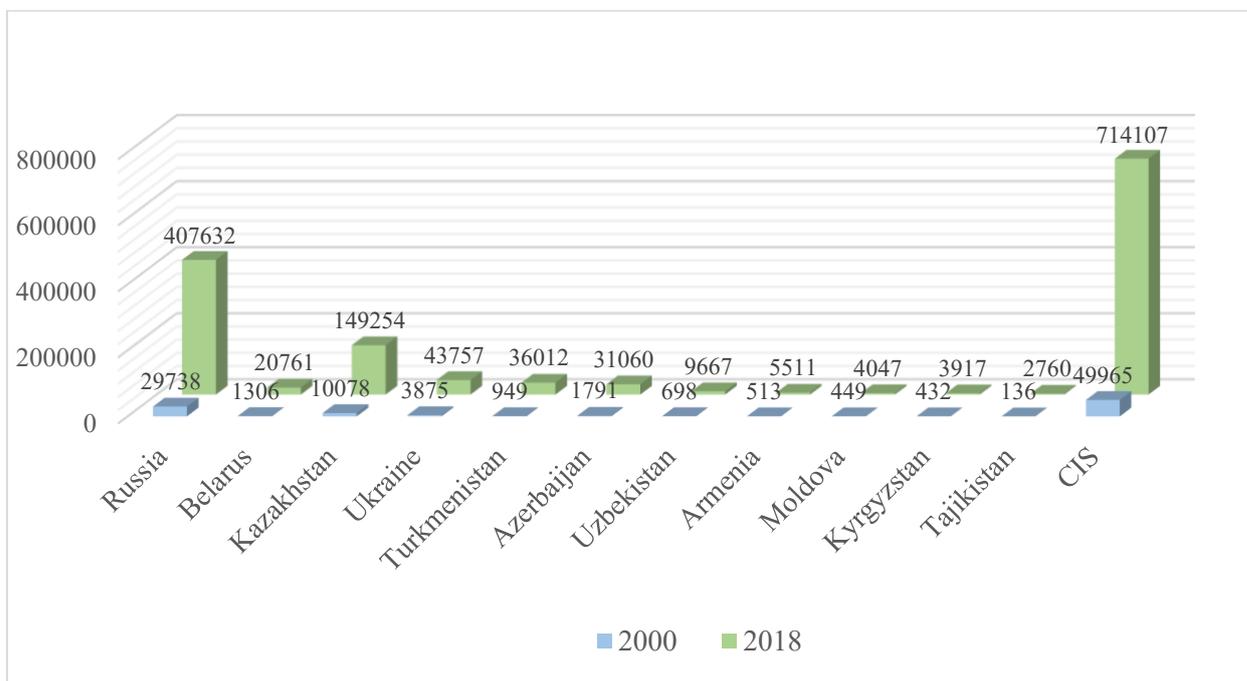


Figure 2.4 Stock of FDI in CIS countries, USD million

Table 2.6 Accumulated direct investments from / to the EAEU by type of financial instruments, billion USD

Indicators	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
	Russia		Belarus		Kazakhstan		Kyrgyzstan		Armenia	
Assets										
Direct investments, all	477,2	435,9	1,6	1,4	35,2	28,0	0,7	0,6	0,6	0,7
Equity participation	372,6	330,2	1,4	1,3	26,3	22,9	0,7	0,6	0,2	0,3
Debt instruments	104,6	105,7	0,2	0,1	8,9	5,1	0,0	0,0	0,4	0,4
Liabilities										
Direct investments, all	529,6	497,4	12,9	13,1	161,3	160,2	5,3	5,4	4,8	5,5
Equity participation	380,7	356,7	10,8	11,0	57,2	59,1	3,6	3,6	3,5	3,7
Debt instruments	148,9	140,7	2,1	2,1	104,1	101,1	1,8	1,8	1,3	1,8

According to the IMF, at the end of 2018, the total amount of FDI stock in Russia is 497.4 billion \$. At the same time, the value of the indicator “participation in capital excluding reinvestment of income” on foreign liabilities was fixed at 356.7 billion \$. However, the share of debt instruments is also significant (140.7 billion \$), as shown in Table 2.6.

Foreign direct investment increases production productivity and boosts domestic private investment. FDI allows obtaining new technologies and developing the economy in the long term. The data presented in Table 2.7 show that FDI plays a different role in the development of the economies of individual CIS countries.

Table 2.7 Ratio of FDI and investment flows to fixed capital

Indicators	Years	Countries									
		Azerbaijan	Tajikistan	Kazakhstan	Uzbekistan	Ukraine	Kyrgyzstan	Moldova	Belarus	Russia	Armenia
Outflowed current FDI / investment in fixed capital, percent	2016	27,2	2,4	-17	-	0,1	-	0,5	0,9	9,6	3,4
	2017	26,3	9,4	2,6	-	-	-1,2	0,6	0,5	9,7	1
	2018	14,9	3,9	-3	-	-	-	1,3	0,2	10,3	-0,4
Attracted current FDI / investment in fixed capital, percent	2016	47,5	24	27,3	0,8	22,8	29,3	5,1	10,2	13,2	17,6
	2017	29,4	16	3,1	0,8	14,5	-4,6	7,6	8,9	7,4	11,4
	2018	11,9	21,6	10,4	3	10	2,1	9,3	9,1	3,8	9,5

The largest ratio of FDI inflows and total investment in fixed capital within the CIS is observed in Azerbaijan (47.5% in 2016). The largest share of attracted stock of FDI in GDP is observed in countries such as Kazakhstan (89.9%), Turkmenistan (81.6%) and Azerbaijan (68.4%). The lowest value of the same indicator was recorded in Uzbekistan (23.4%) and Russia (34.8%). However, in the period from 1995 to 2018, in all CIS countries, the ratio of FDI to GDP increased significantly, which is reflected in Table 2.8. In the period under review, in the CIS member states, the ratio of outward FDI to GDP also increased. The highest value of the indicator was noted in Azerbaijan, Russia and Kazakhstan (52.1%, 21.1% and 9.8%, respectively).

Table 2.8 Ratio of FDI and GDP

Indicators	Years	Countries									
		Azerbaijan	Tajikistan	Kazakhstan	Uzbekistan	Ukraine	Kyrgyzstan	Moldova	Belarus	Russia	Armenia
Inflow FDI/GDP, percent	1995	13,7	7	17,4	1	2,3	9,7	6,8	0,5	1,7	5,1
	2016	70,5	34,1	104	13,7	45,1	77	37,2	39	30,7	43,9
	2017	71,6	34,2	89,9	19	38,6	51,4	38,2	36,2	27,9	41,2
	2018	68,4	36,7	87,5	23,4	35,1	48,4	35,5	34,8	25	44,4
Outflow FDI/GDP, percent	1995	-	-	-	-	0,2	-	1,3	1,8	1	-
	2016	51	-	17,1	-	8	-	2,6	1,6	26,1	5,4
	2017	53,5	-	12,6	-	6,7	-	2,3	1,6	24,1	5,1
	2018	52,1	-	9,8	1	6	-	2,2	1,4	21,1	4,9

Further, it seems appropriate to analyze the features of attracting FDI in Russia as the main investor and recipient of capital within the Union. It is worth noting that after the financial crisis in Russia in August 1998, the volume of FDI in Russia has grown significantly. For the period 1992-1998 the volume of attracted FDI amounted to 1.4 billion \$ per year. In the 2000s, Russia was one of the main countries in the world in terms of attracted investments. However, the crisis of 2008-2009 interrupted this trend. After the crisis, growth gradually began to resume. Russia's attractiveness rating for foreign investors has grown significantly since the second half of the 2000s, but the volume of attracted foreign direct investment is incomparable with the inflow of FDI in developed countries. Analysis of the information in Figure 2.5 allows us to notice that in the period from 2007 to 2018, the volume of FDI in the Russian economy decreased significantly. There is a negative trend.

As can be seen in the graph, according to the Central Bank of the Russian Federation, the largest volume of investments was recorded in 2008 in the amount of 74.8 billion \$ which began in 2008, led to a decline in FDI to 36.6 billion \$. However, after the financial crisis, there has been an increase up to 2013 inclusive.

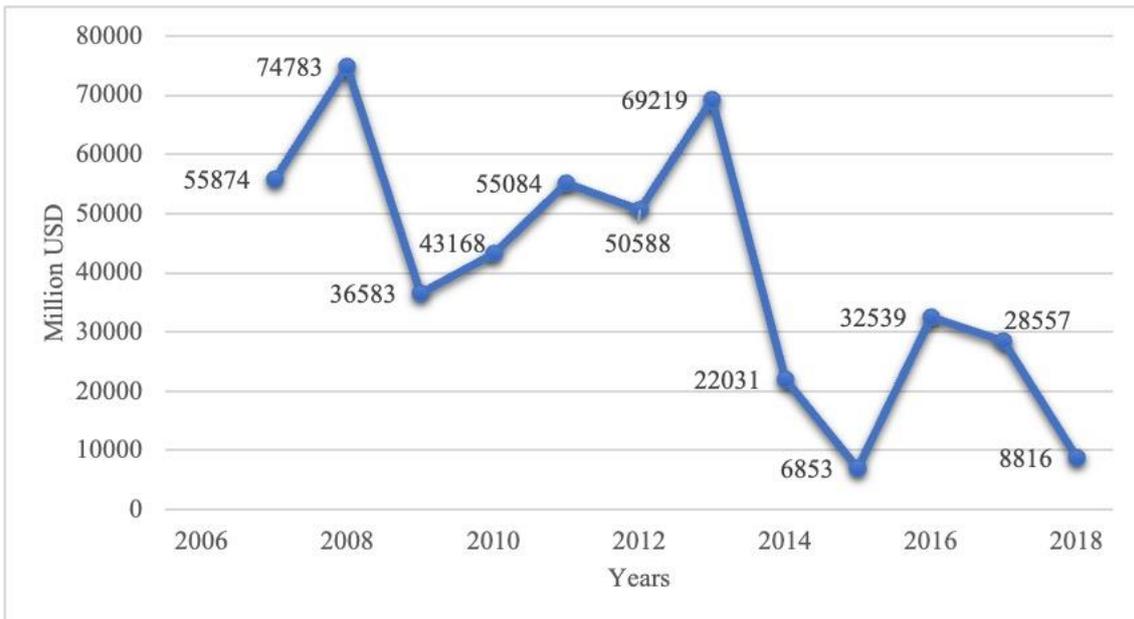


Figure 2.5 FDI in Russia 2007-2018, in million USD

Source: Database the Central Bank of Russia¹⁰

In 2013, the Russian Federation surpassed countries such as Singapore and Hong Kong in terms of the inflow of foreign direct investment. The value of this indicator is noted at the level of 69 billion USD. This is due to the acquisition by the British company British Petroleum of 18.5% of the shares of company Rosneft. However, after the imposed sanctions against Russia, at the end of 2014, the volume of FDI in Russia decreased significantly (to 22 billion \$). At the end of 2015, inward FDI in Russia fell to 6 billion USD. In 2016, the value of the indicator was 32.5 billion USD. The main reason is the sale by the state of 19.5% of the shares of the Rosneft corporation to the Qatar Investment Authority and the Swiss company Glencore. In 2017, FDI fell to 28.6 billion USD. As of 2018, FDI fell to 8.8 billion USD.

The main flow of FDI in Russia comes from offshore zones, where companies usually seek to avoid taxation in their country. These states include the British Virgin Islands, Cyprus and Luxembourg. The data obtained for 2013-2018 allow us to reveal that a significant share of attracted FDI in the Russian economy falls on Russian investors in accordance with Table 2.9. The analysis of the data obtained allowed us to conclude that Russia mainly invests capital in offshore zones.

It is worth noting that after the law on deoffshorization of the economy introduced in 2015, the net export of capital from Russia, as of 2016, decreased to 39 billion USD. In 2017, there was also a decrease in the value of the indicator to 24.3 billion USD.

¹⁰ Database the Central Bank of Russia [URL:https://cbr.ru/statistics/macro_itm/svs/](https://cbr.ru/statistics/macro_itm/svs/)

Table 2.9 FDI in Russia: 10 Key Partner Countries, in million USD

Country	2013	2014	2015	2016	2017	2018
Cyprus	8266	3158	-7069	-436	8674	-10313
Luxembourg	11638	-693	-5770	-939	3378	-452
Netherlands	5716	1102	-246	165	-1427	7910
Bahamas	2791	3808	5108	5802	6211	923
British Virgin Islands	9379	3123	2374	1010	-827	1491
Germany	335	349	1283	224	470	343
Ireland	1033	-531	623	-1789	889	-3850
China	597	1271	645	345	140	-13
Austria	-326	841	407	374	-174	884
Great Britain	18927	120	1112	478	2076	2511

According to the Bank of Russia, in 2018, capital outflow increased to 63 billion USD. Capital outflow contributes to the emergence of a structural liquidity deficit in the banking sector but may lead to a slowdown in economic growth. Further, it seems important to consider the distribution of FDI in the Russian economy by type of economic activity.

In 2018, the largest volume of direct investment was observed in such industries as financial activities (8 368 million USD), mining (5 043 million USD), real estate (583 million USD) and manufacturing (4 289 million USD), which is shown in Figure 2.6.

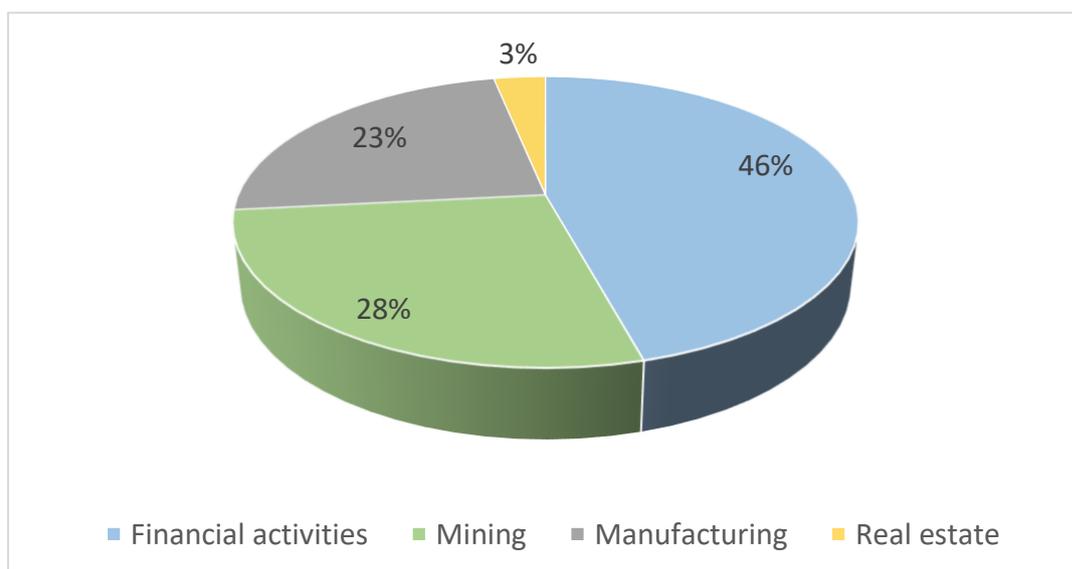


Figure 2.6 Stocks FDI in Russia by type of economic activity

According to the Central Bank of the Russian Federation, in the period from 2012 to 2014, the leaders in terms of FDI received were wholesale and retail trade, financial activities and insurance. However, since 2014, there has been a sharp decline in FDI inflows into retail trade. In 2015-2016 such areas as mining and manufacturing have come to the fore. To date, the bulk of FDI stock from the CIS countries in Russia falls on real estate, wholesale and retail trade. The least attractive industries for mutual FDI are services.

According to the IMF, the total amount of FDI stock in Russia from the CIS countries as of 2018 was marked at the level of 12.98 billion USD. However, the volume of direct investment in Russia from the countries of the union is 11.15 billion USD, which is reflected in Table 2.10. Today, Russia is one of the most active investors for Belarus (the volume of FDI stock was recorded at the level of 3 796 million USD), Kazakhstan (3 210 million USD) and Ukraine (3 658 million USD).

The comparative analysis of mutual direct investments within the CIS countries according to Table 2.11 allows us to note that Russia is the main strategic partner and investor within the CIS.

Table 2.10 Mutual FDI in the CIS area, in million USD

FDI recipient country	Stock of FDI in investing countries									
	Russia	Kazakhstan	Belarus	Kyrgyzstan	Azerbaijan	Tajikistan	Armenia	Ukraine	Uzbekistan	Moldova
Russia	-	3132	1342	161	644	327	669	3418	1098	236
Kazakhstan	3210	-	23	0	36	2	0	23	9	10
Belarus	3796	18	-	1	39	0	2	96	1	5
Kyrgyzstan	174	215	0	-	0	1	0	1	1	0
Azerbaijan	92	78	7	0	-	3	0	25	14	2
Tajikistan	370	55	0	1	0	-	0	7	0	0
Armenia	1374	0	0	0	0	0	-	1	0	0
Ukraine	3658	212	37	0	149	0	0	-	0	16
Uzbekistan	130	0	0	0	0	0	0	0	-	0
Moldova	177	-1	1	0	0	0	0	34	0	-

Source: IMF database¹¹

¹¹ IMF database [URL:http://data.imf.org/regular.aspx?key=61227426](http://data.imf.org/regular.aspx?key=61227426)

Table 2.11 Stock of Russian FDI to / from CIS countries

Country	Outward FDI from Russia			Inward FDI to Russia		
	2017	2018	2019	2017	2018	2019
Russia, all	334275	380047	433341	393910	441123	496613
Azerbaijan	28	92	219	607	664	572
Armenia	1192	1346	1310	586	669	620
Belarus	2710	3796	4043	1182	1342	1192
Kazakhstan	3008	3210	3334	2379	3131	2903
Tajikistan	442	370	370	309	327	273
Ukraine	3425	3658	3106	3205	3418	2826
Kyrgyzstan	167	174	205	148	161	144
Moldova	229	177	263	221	236	205
Uzbekistan	231	130	65	1042	1098	854
CIS share in all Russian FDI, %	3,42%	3,41%	2,98%	2,46%	2,50%	1,93%

Thus, the results obtained allow us to note that cooperation between individual CIS countries in the field of FDI is poorly supported, and countries such as Kyrgyzstan, Tajikistan, Moldova, Turkmenistan and Uzbekistan practically do not interact with other CIS countries. Most of the FDI is directed to the primary industries. There is a weak development of the service sector (high technology). The need for investment in this area is not being realized.

In author's opinion, the activation of economic interaction of the CIS countries in the field of FDI can proceed according to following three main scenarios:

- Scenario 1: Pessimistic scenario "Lack of investment".
- Scenario 2: Inertial scenario "Slow development".
- Scenario 3: Optimistic scenario "Steady growth".

According to Scenario 1, in some CIS countries, state budgets will remain highly dependent on energy prices in the external market. There will be a deterioration in the investment attractiveness of the region for foreign investors. The volume of mutual FDI within the CIS will continue to decline. According to this approach, the possibility of

pulling individual CIS countries to foreign regional groupings and the preservation of an unfavorable foreign economic situation prevails.

In modern conditions, there is a weak level of economic cooperation between the CIS countries in the field of high technologies. According to scenario 2, differences in the levels of development of national economies will remain. At the end of 2018, the total volume of accumulated direct investments in the CIS member states from Russia amounted to 12.9 billion USD. The accumulated FDI in Russia from the Union countries was noted at the level of 9.7 billion USD. Thus, Russia is the main investor for the CIS member states. It should be noted that cooperation between individual CIS countries in the field of FDI is weakly interacting with each other. This approach is characterized by moderate long-term economic growth rates based on the inflow of direct investments into the raw materials sectors of the CIS economy.

Scenario 3. An increase in the volume of mutual FDI will ensure a stable level of economic development of the CIS partner countries. According to this approach, there will be an increase in the investment role of the banking system and the stock market in the economy of the CIS countries, the development of the public-private partnership mechanism, and the deoffshorization of financial activities, which is associated with the formation of special funds of all forms of ownership, FDI agencies. In the formation of a set of activities in the field of FDI, in the long term, there will be an increase in the volume of foreign direct capital in knowledge-intensive sectors of national economies. According to this scenario, there is a decrease in geopolitical risks and an improvement in the investment climate in the CIS space.

To assess the prospects for the development of cooperation between the CIS member states in the field of foreign direct investment, it seems appropriate to use the SWOT analysis method, which allows us to identify in the form of a visual diagram of the interaction of strengths and weaknesses, opportunities for development and threats. Nowadays, several common problems are observed in the CIS space that require joint efforts to solve them, as presented in Table 2.12. Through a comprehensive analysis of indicators of macroeconomic stability and financial sustainability, it was revealed that the CIS countries have common strengths and weaknesses that affect the development of economic cooperation between the Union countries at the present stage. Weaknesses that have a negative impact on FDI inflows also include: macroeconomic risks, a high level of bureaucracy, the lack of a unified transparent regulatory framework in the field of FDI and others.

However, using the integration potential of the studied countries, it is possible to achieve the best outcome of the scenario of long-term economic development of the CIS countries. In order to maintain stable economic growth within the Union, it seems

expedient to have an effective state investment policy based on the principles of transparency, assurance and transparency.

Table 2.12 SWOT analysis of the use of FDI in the development in the CIS

Strengths	Weaknesses
<ul style="list-style-type: none"> - natural wealth (mineral reserves: oil, coal and gas), geographic location and market size; - improved performance of business regulation. 	<ul style="list-style-type: none"> - lack of a unified legal framework in the field of FDI within the CIS; - low paying capacity of the population; - a high level of bureaucracy that generates corruption; - low indicators of business regulation in individual countries of the union; - weak development of the financial market; - high dependence of state budgets on prices for raw materials in the external market in individual CIS countries; - insufficient level of corporate governance and business ethics in business structures; - insufficient innovation potential.
Opportunities	Threats
<ul style="list-style-type: none"> - liberalization of foreign exchange regulation and the ongoing transition to convertibility open up new investment opportunities; - deoffshorization of the economies of the CIS countries; - development of a PPP mechanism as a tool for attracting mutual direct investments between the CIS member states; - improvement of indicators in the rating “Doing Business”, which will improve the investment climate of the CIS economy; - development of cooperation at the level of interstate associations of the CIS-EAEU and CIS-BRICS, which implies the liberalization of FDI between countries. 	<ul style="list-style-type: none"> - geopolitical problems: the possibility of introducing new sanctions against Russia, which is a key investor within the CIS; - dependence of individual CIS countries on energy prices in the external market.

3. PROBLEMS AND PROSPECTS OF FDI IN THE DEVELOPMENT OF CIS COOPERATION

3.1. Problems of forming an investment climate for integration development in the CIS Space

In order to expand the economic cooperation of the CIS partner states in the field of FDI, it is important to improve the investment climate in the region. It is necessary to develop knowledge-intensive industries, form a unified investment legislation within the union, and simplify the conditions for doing business. Improving the investment climate in the CIS member states should become the main direction of development of the national economies of the studied countries at the level of heads of state for the medium and long term. At the present stage, the partner countries of the union are implementing a set of actions to modernize the business environment. However, in terms of investment attractiveness for private investors, the CIS member states are significantly inferior to industrialized countries.

The analysis of key indicators of international rating agencies allows us to determine and systematize the main factors that hinder the increase in the competitiveness of the countries of the Union and individual regions in the context of post-crisis development. As practice shows, the ratings of countries in terms of ease of doing business and global competitiveness are the most important from the point of view of foreign investors. Long-term investors conduct a comprehensive assessment of world rankings in order to substantiate their choice when carrying out FDI in the national economy. Attraction of FDI depends on various factors, one of which is the development of the investment attractiveness of the national economy.

Analysis of the data in Table 3.1 allows us to determine that Azerbaijan occupies a leading position within the Union and 25th in the Doing Business world ranking. At the end of 2018, Russia and Kazakhstan also recorded high values of indicators in the CIS space (28 and 31 positions in the world, respectively).

It seems important to note that in other CIS countries, low values of indicators were noted, which confirms the low level of development of the investment climate. For example, Uzbekistan is on the 76th position in the world ranking among 190 countries of the world in terms of the ease of starting and doing a business.

Analysis of the data in Table 3.1 shows that the CIS economy is unattractive for foreign investors. The problems of improving the investment climate of the studied group of states include the following:

- high administrative barriers in individual countries of the CIS;

- long time of registration of permits for construction. For example, Tajikistan and Moldova occupy the last places in the world ranking (135 and 172 positions, respectively).

Table 3.1 Ranking of CIS countries according to the Doing Business rating, 2018

	Registration of organizations	Getting permits for construction	Getting electricity	Getting credit	Protecting minority investors	Taxation	Property registration	Trading across borders	Enforcement of contracts	Country in the world ranking
Russia	32	48	12	22	57	53	12	99	18	31
Belarus	29	46	20	85	51	99	5	25	29	37
Kazakhstan	36	35	76	60	1	56	18	102	4	28
Armenia	8	98	17	44	51	82	14	46	24	41
Kyrgyzstan	35	29	164	32	38	150	8	70	131	70
Ukraine	56	30	135	32	72	54	63	78	57	71
Azerbaijan	9	61	74	22	2	28	17	84	40	25
Tajikistan	60	135	173	124	38	136	91	148	61	126
Moldova	14	172	81	44	33	35	22	35	69	47
Uzbekistan	12	134	35	60	64	64	71	165	41	76

According to a World Bank report, many CIS countries are experiencing difficulties associated with high lending rates, a significant share of late payments, unfavorable terms of taxation and international trade, and an ineffective regulatory framework in the field of FDI ([WB, 2019](#)).

In the CIS area, at the end of 2018, Azerbaijan ranks first in terms of the introduction of business due to the fact that the government has carried out many reforms in this direction and Government reforms have had a positive impact on improving the investment climate in the country:

- the procedures for registration of documents for construction have been simplified, in particular, the terms of their issuance have been reduced by 80 days;
- a large center of public services “ASAN” was opened, which allows to reduce the level of bureaucracy in the country;
- simplified the procedure for paying taxes by introducing electronic invoices and a single tax return for making contributions to the social security system. For the development of foreign trade, electronic customs procedures have been optimized according to the “Green Corridor” principle.

To improve Kazakhstan's position on the indicator “International Trade” in 2018, the information (electronic) system of customs declaration “ASTANA-1” was formed, which is an important criterion for foreign investors. Major initiatives were implemented in Kazakhstan aimed at increasing the attractiveness of the business environment:

- the rates of customs duties for certain categories of goods have been reduced in accordance with the norms of the customs code of the EAEU;
- the terms of VAT registration have been minimized.

As for Russia, at the end of 2018 in Moscow, income tax was reduced due to an increase in the amount of depreciation, additional activities were taken to reduce electricity costs, and an inspection was formed to determine the risks in the field of issuing construction permits and control their quality. After the imposed sanctions against Russia in 2014, the attractiveness of the domestic market for foreign investors began to gradually decline. In such conditions, the inflow of FDI into the national economy slowed down significantly. In 2013, Russia ranked 3rd in the world in terms of foreign investment inflow, behind only the United States and China. However, Russia's position in the Ukrainian conflict has provoked a negative reaction in industrialized countries, in particular, in the United States and in Europe. This circumstance, as noted, led to the imposition of sanctions against Russia, which had a negative impact on the investment attractiveness of the country.

Next, consider the FDI Confidence Index, developed by consulting company A.T. Kearney. The ranking identifies the 25 most attractive countries for FDI, which is shown in Figure 3.1. The rating was calculated based on a survey of the leading 300 large companies. At the same time, the turnover of each organization exceeds \$ 1 billion. In 2013, Russia ranked 11th in this rating. However, according to the ratings agency A.T. Kearney, in 2019 the Russian Federation was not included in the top twenty five countries attractive to foreign investors.

Other CIS countries have also made a number of transformations to create favorable conditions for starting a business for FDI. For example, in order to ensure the transparency of the judiciary and its independence, the Kyrgyz government has reduced the time costs for resolving commercial disputes. In Belarus, the audit register has been canceled, which made it possible to optimize the procedures for registering enterprises. The Republic of Moldova has eliminated the requirement for a separate submission of documents for registration with the National Bureau of Statistics. In Uzbekistan and Tajikistan, an agreement on a simplified customs corridor entered into force to simplify customs procedures between the countries. It is important to note that almost all CIS

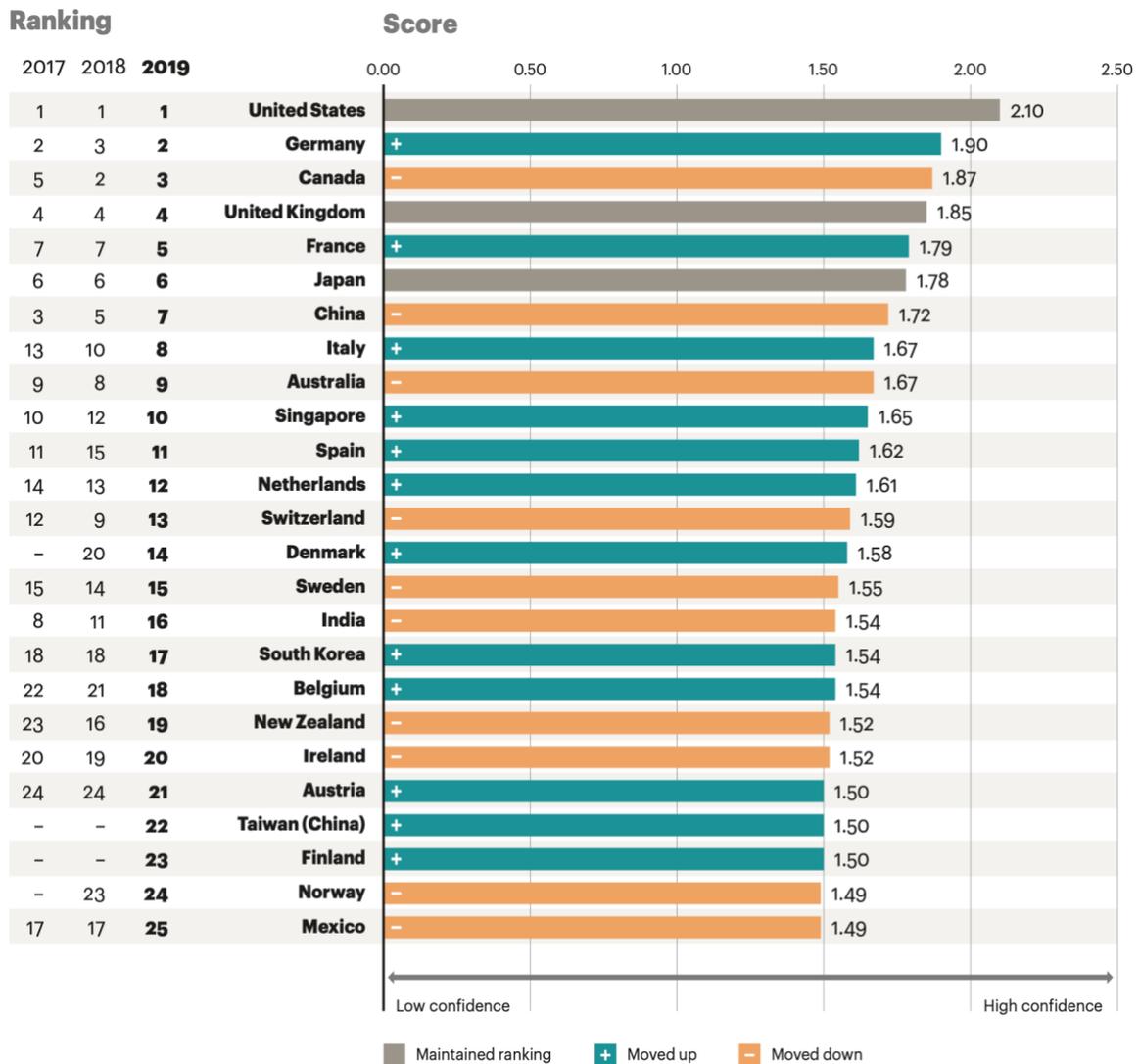


Figure 3.1 A.T. Kearney confidence index, 2019

Source: The 2019 A. T. Kearney Foreign Direct Investment confidence index¹²

countries have undertaken reforms aimed at improving the effectiveness of the protection of minority shareholders *(WB, 2019)*.

According to the 2019 Global Competitiveness Report, Kazakhstan, Azerbaijan and Armenia improved their positions in the ranking. In 2019, Azerbaijan rose from 69th to 58th place in the global competitiveness rating. Russia and Kazakhstan occupy 43 and 58 places in the world, respectively. In the rest of the CIS countries, low indicators were

¹² The 2019 A. T. Kearney Foreign Direct Investment confidence index <https://www.kearney.com/documents/3677458/3679958/Facing%2Ba%2Bgrowing%2Bparadox.pdf/>

noted. For example, in 2019 Kyrgyzstan and Tajikistan ranked 96nd and 104nd in the Global Competitiveness Index, respectively_(Schwab, 2019).

The investment attractiveness of the CIS member states is unfavorable, which has a fundamental effect on the inflow of FDI into the national economies of the studied countries. Based on Figure 3.2, in terms of the level of support for a competitive business environment, countries such as Azerbaijan, Russia and Kazakhstan are leaders in the region. Comparison of 12 factors on the basis of which the index of global competitiveness in Russia, Azerbaijan and Kazakhstan is based according to the World Economic Forum.

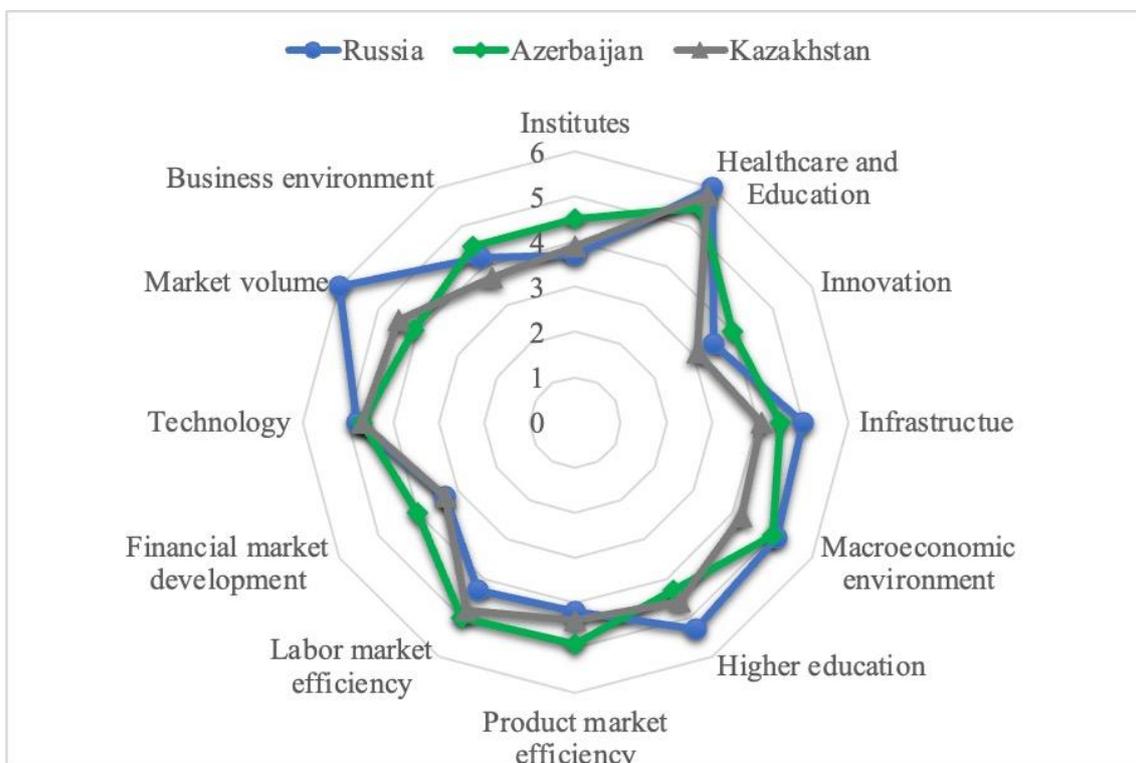


Figure 3.2 Global Competitiveness Index Factors, 2019

Compared with Azerbaijan and Kazakhstan, Russia at the present stage has the best indicators for such factors as market capacity due to the largest population, infrastructure and higher education. However, within the framework of the CIS, Russia is inferior to Azerbaijan in terms of institutional factors and the efficiency of the market for goods and services. Almost all countries of the union have the lowest values for the development of the financial market and innovations.

According to the international rating of global competitiveness, the key obstacles to improving the investment climate within the framework of the CIS integration association include:

- geopolitical problems of the CIS member states;
- differentiation of the main macroeconomic indicators;
- a high level of bureaucracy in certain partner countries of the CIS;
- the difficulty of obtaining financing in the external market;
- lack of financial resources.

As practice shows, in modern economic science there are various methods for assessing the investment attractiveness of individual countries and regional associations. As part of the study, a comparative assessment of investment attractiveness was carried out on the example of the CIS countries in the context of regional integration:

- the level of economic development, which characterizes the intensity of the investment process;
- business environment (risks associated with the legal environment);
- attractiveness of the national economy for FDI.

The main indicators that allow for a comprehensive assessment of the investment climate of the CIS economy for potential investors are the following:

- a) GDP per capita in PPP at the end of 2018, which is represented by the size of the ball. Data are from the official website of the IMF. The paying capacity of the population is one of the main indicators characterizing the attractiveness of the market for making long-term direct investments;
- b) on the ordinate axis, the calculations were performed using the formula: $Y = 1 / R$, where R is the place of the country according to the international rating "Doing Business-2019". The Y value determines the level of risk in terms of the legal environment. The lower the value of this indicator, the higher the risks from the point of view of the conditions for starting a business;
- c) the abscissa shows the ratio of IFDI stock to GDP (in percent) at the end of 2018. The analysis of this indicator provides an opportunity to assess the economic attractiveness of the country for foreign investors over a long period of time. In the second picture instead of that indicator share of natural wealth in GDP is used. Data from the official UNCTAD website is taken.

So, based on depicted four indicators, it can be concluded that the economies of Kazakhstan and Azerbaijan are the most favorable from the point of view of legal aspects. However, in terms of GDP per capita, the country ranks second within the CIS, behind Russia. Azerbaijan occupies a leading position among the rest of the Union in terms of the condition for the doing of business. In terms of national welfare, at the end of 2018,

Russia placed on top in the region. According to UNCTAD, in 2018, in terms of the FDI to GDP ratio, Russia occupies an average position within the CIS. It is important to note that the rest of the CIS countries are the least attractive for investors from the standpoint of the business environment.

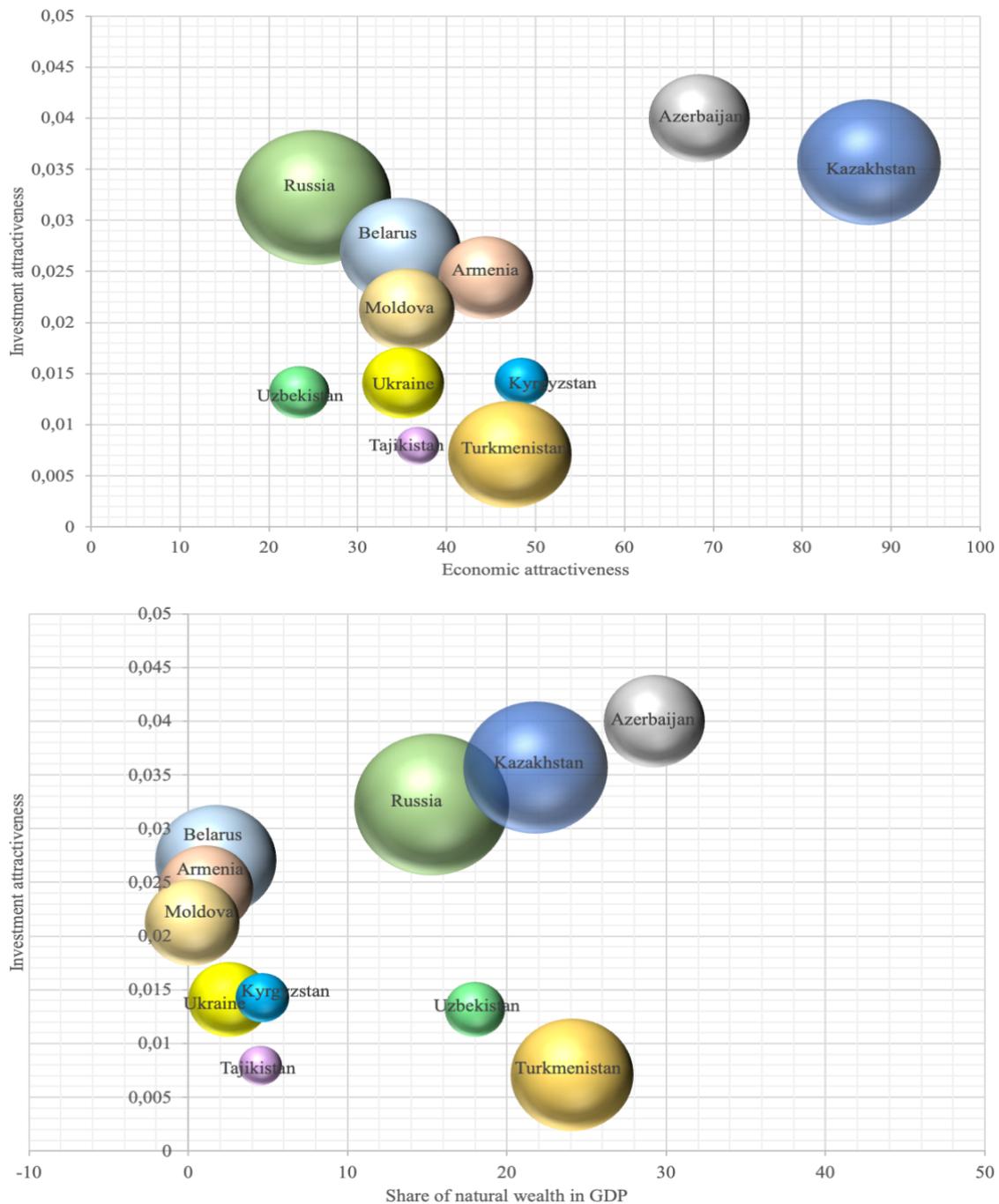


Figure 3.3 Comparative analysis of the investment climate of the CIS countries

The study makes it possible to identify the main groups of factors that negatively affect the development of cooperation between the CIS member states in the field of FDI, which is reflected in Figure 3.4.

The factors that hinder the provision of macroeconomic stability include the following:

- high inflation rate in some CIS countries;
- exposure of most of the region's economies to price fluctuations;
- insufficient volume of gold and foreign exchange reserves in individual member states of the union;
- the difference between countries in terms of economic structure, GDP per capita and population;
- lack of funding for the real sector of the economy.

Geopolitical issues include:

- the imposed sanctions against the Russian Federation;
- Nagorno-Karabakh conflict between Azerbaijan and Armenia;
- disagreements in Russian-Ukrainian relations and the possibility of Ukraine's complete withdrawal from the CIS;
- Transnistrian conflict;
- aggravation of Russian-Georgian cooperation.

Legal risks include:

- insufficient guarantee of return on investment;
- there are no unified rules and regulations for FDI regulation;
- lack of a single Agreement on the encouragement and mutual protection of investments of the CIS member states.

Another structural problem is the disproportion in attracting FDI, namely:

- irregular distribution of FDI among the CIS countries;
- the differentiated role of direct investment in the development of the economy of individual CIS countries;
- low level of cooperation of the countries of the region in the field of FDI.

Institutional barriers include:

- dependence of the judicial system;
- lack of an effective system for the protection of property rights;
- non-transparency of budget spending.

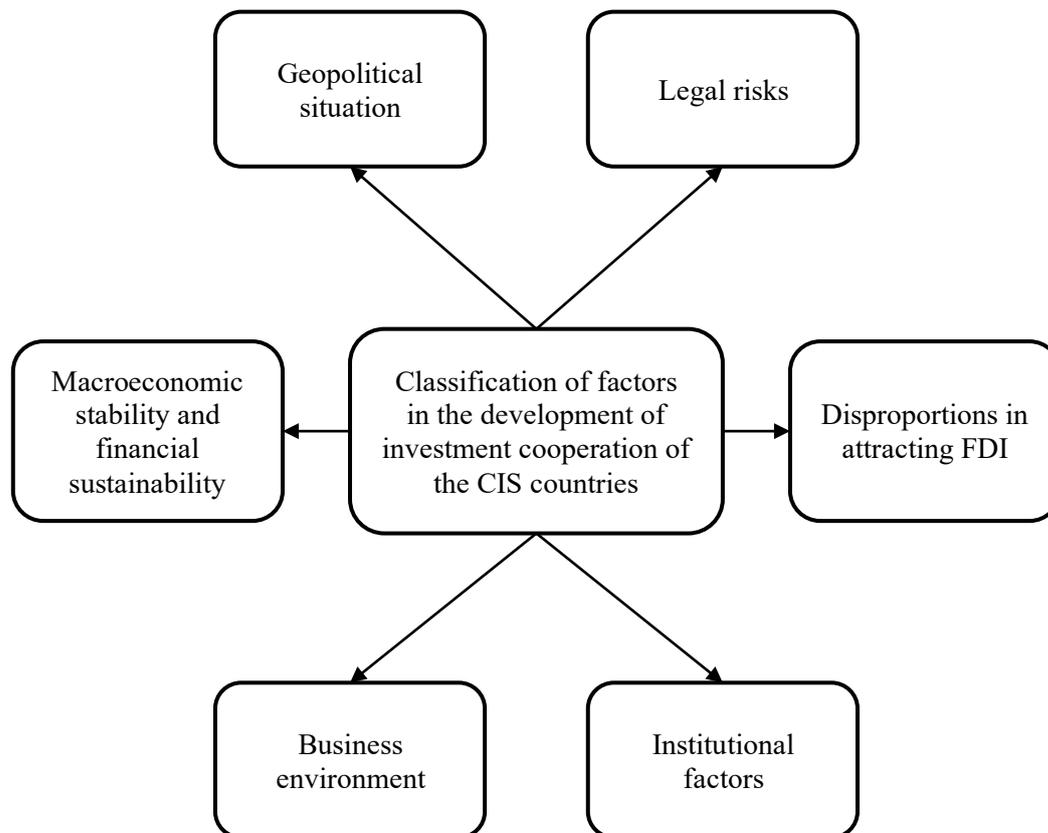


Figure 3.4 The main problems of investment cooperation of the CIS countries

Administrative problems include:

- bureaucratic procedures: low indicators in the Doing Business rating in a number of CIS countries;
- low level of corporate governance and business ethics.

Thus, it should be noted that based on the analysis of the positions of the CIS member states in international ratings, it was concluded that currently Kazakhstan, Russia and Azerbaijan are the most favorable countries for foreign investors. In other states of the CIS integration association, a high share of risk was noted in the implementation of FDI.

In order to increase the attractiveness of the region, it is necessary, firstly, to reduce administrative barriers and develop a PPP mechanism, which will contribute to the growth of confidence on the part of foreign investors. Second, to form bilateral and multilateral funds and agencies in the field of FDI between the CIS countries. It is important to develop project financing, which will reduce the state's share in the assets of financial and credit institutions, increase the role of the private sector and stimulate such alternative project financing instruments as crowdinvesting and crowdfunding.

Solving the problems of attracting FDI to the studied countries will increase the level of investment attractiveness of the CIS partner countries at the present stage.

3.2. Investment projects as a mechanism for the integration of Russia with the CIS countries

The main foreign investors of the CIS integration association are the countries of the European Union (Great Britain, Cyprus, Netherlands, France). At the same time, there is a high share of China in the stock of FDI in some CIS member states. The data obtained in Table 3.2 allow us to note that the most active links in the field of FDI have developed between Azerbaijan and Turkey. Russia is the main investor for Armenia, Belarus, Moldova, Kyrgyzstan. Most of the direct foreign investments in the economy of Tajikistan are in China. The largest volume of FDI stock in Russia and Kazakhstan comes from the Netherlands and Cyprus. Russia directed the largest volume of investments to Cyprus (172,4 billion USD).

While almost all CIS countries, apart from Belarus, export capital to third countries, for example, the volume of accumulated investments, as of 2019, Azerbaijan in Turkey exceeded 10 billion USD. The volume of accumulated FDI of Belarus from Russia exceeded 10,9 billion USD, which confirms that the countries are one of the close partners within the CIS. According to the IMF, Russia is also in first place in the export of Belarusian capital (647 million USD). As for the Russian-Belarusian investment cooperation, it should be noted the active development of interaction between the countries since 2011. In particular, an agreement was signed between the Russian company “Atomstroyexport” and the Belarusian nuclear power plant. The total volume of investments in the form of an export credit from Russia amounted to 10 billion USD. A large implemented project, with an assigned capital of 500 million USD, includes the construction in 2015 of the multifunctional complex “Gazprom Center”, where the investor is JSC “Gazprom Trans Gas Belarus”. In 2012, the Russian-Belarusian company “National Traffic Exchange Center” and the Russian “N-Trans” group entered into a deal with an estimated value of 400 million USD to create the Belarusian Cloud Technologies (beCloud) operator, which is very important for both countries for development of the digital economy. To ensure integration growth within the CIS, Russia and Belarus completed another deal in 2013 for the construction of a carbon black plant, which contributed to the intensification of cooperation between the countries in the field of FDI and trade.

Another important and promising strategic partner for Russia within the CIS is Kazakhstan. There are over 6,000 companies with Russian capital operating in Kazakhstan, and about 100 joint projects are at the stage of implementation, with a total

investment of 20 billion USD. The bulk of FDI from Russia to Kazakhstan is in the manufacturing industry. According to the Eurasian Economic Commission (EEC), Russia accounts for 58.6% of the total number of the largest projects under implementation, Kazakhstan – 19,6%, Belarus – 13,9%, Kyrgyzstan – 4,2%, Armenia – 3,7%¹³. The main initiators of these projects are such major Russian companies as “Gazprom”, “Lukoil”, “Mechel”, “RusAl”, “Rostech”, “Rosatom”, “AvtoVAZ”, “Vimpelcom”, “Beeline”, “EuroChem”, as well as subsidiaries of Russian banks: Sberbank, Alfa Bank, VTB.

In 2019, according to the Ministry of Foreign Affairs of the Republic of Kazakhstan, there were 157 projects in the country, where “NK Kazakh Invest” JSC is a co-investor. The volume of attracted investments is 40 billion USD. One of the active instruments aimed at obtaining long-term investments is the creation of free economic zones (FEZ). As of 2019, there were 12 SEZs in Kazakhstan. An important area of cooperation between Russia and Kazakhstan is the fuel and energy complex. “Rosneft” Corporation owns 31% of shares in the Caspian pipeline consortium, through which Russia exports oil through Kazakhstan to China.

“Rosatom” companies operate in the Kazakhstan market, the main activity of which is the extraction of natural uranium. The space industry is an important area of cooperation between countries at the present time. This fact is confirmed by the functioning of the “Baiterek” missile system, which was created in 2004. It is important to note that Russia will lease the “Baikonur” complex located in Kazakhstan until 2050.

Another promising and significant project for enhancing cooperation between the CIS countries is the completion of the construction of the multimodal port “Kuryk”, which will allow transporting goods from China, the countries of Central Asia, the Ural-Siberian region of Russia to Turkey and Europe.

However, there is disagreement between the countries over Kazakhstan's losses caused by barriers to the transit of local coal to Ukraine. According to Kazakhstan analysts, the amount of losses was estimated at 11 million USD per month. In order to avoid such obstacles in the implementation of projects in the CIS space, it seems rational to develop a single developed strategy for interaction between countries, ensuring the transparency of expert assessments of ongoing projects. Russia and Kazakhstan are planning to implement joint projects in the field of mechanical engineering. To implement the initiative to turn Kazakhstan into a full-fledged regional financial center, another equally important project was implemented to open the Astana International Financial Center and Astana International Exchange in 2018.

¹³ Main trends in the integration development of Kazakhstan / Eurasian Development Bank
https://eabr.org/upload/iblock/c03/EABR_KZ_08_2019_1_.pdf

Table 3.2 Major investor countries in the CIS as of 2019, million USD

Country	IFDI stock	OFDI stock
1	2	3
Azerbaijan	Great Britain – 6317 Turkey – 5797 Norway – 3063 Iran – 2523 Cyprus – 1907	Turkey – 10761 Georgia – 2984 Switzerland – 1237 Great Britain – 1013 USA – 594
Armenia	Russia – 1374 Cyprus – 410 Great Britain – 624 USA – 250	Latvia – 56 Bulgaria – 36 USA – 3
Belarus	Russia – 10971 Cyprus – 3407 Austria – 618 Netherlands – 497 Switzerland – 320	Russia – 647 Cyprus – 70 Ukraine – 37 Venezuela – 34 Lithuania – 29
Kazakhstan	Netherlands – 62517 USA – 27161 France – 13219 China – 9397 Japan – 5938	Netherlands – 11709 Great Britain – 4242 Luxembourg – 1654 Russia – 1328 Bahamas – 782
Tajikistan	China – 167 Russia – 432 Great Britain – 266 Switzerland – 127 Iran – 124	Russia – 273
Russia	Cyprus – 135497 Netherlands – 49561 Luxembourg – 49449 Bermuda Islands – 30168 Bahamas – 39106	Cyprus – 172436 Netherlands – 40378 Austria – 26711 Switzerland – 18057 Virgin Islands – 9 899
Ukraine	Netherlands – 6178 Cyprus – 3090 Switzerland – 2107 Germany – 2054 Great Britain – 1666	Russia – 2824 Hungary – 394 Lithuania – 155 Netherlands – 149 Great Britain – 56
Kyrgyzstan	China – 1394 Russia – 1086 Canada – 967 Great Britain – 300 Kazakhstan – 215	Canada – 741 Russia – 135 Kazakhstan – 9 Singapore – 8 China – 10

1	2	3
Moldova	Russia – 792 Netherlands – 415 Cyprus – 323 Spain – 286 France – 262	Russia – 199 Italy – 39 Bulgaria – 14

Russia and Kazakhstan made the largest investment in the Kyrgyz economy. One of the important areas of cooperation between the countries is hydropower, transit, and logistics. In particular, Russian companies “Ruselprom” and JSC “Russian Railways” operate in Kyrgyzstan. It is also worth noting that Russia and Kyrgyzstan are implementing joint projects within the North-South transport corridor to modernize the road infrastructure. In Kyrgyzstan, there are 334 joint companies with Kazakh capital in various sectors of the economy.

Investment cooperation with the rest of the CIS countries has a significant unrealized potential, in particular, in the field of agriculture, which is associated with non-compliance with technical regulations in this area.

In 2016-2019 Russia is one of the five main investors for Tajikistan, ahead of Great Britain, Switzerland and Irina, but losing to China. The countries are actively cooperating in the field of energy, oil and gas development and telecommunications. The newly completed transaction includes the delivery of “LIAZ” and “PAZ” buses to Tajikistan by the Russian company “Russian Buses-GAZ Group” LLC. In 2018, it was decided to join the Russian navigation system ERA-GLONASS. The analysis makes it possible to note that the factors that limit the development of mutual cooperation between countries include unfavorable conditions for starting a business, high taxes for investors, volatility and unpredictability of legislation in the field of FDI, protection of property rights, excessive monopoly of the most attractive sectors of the national economy. To solve these problems, it seems expedient for the country to join the EAEU and intensify cooperation with all CIS member states. However, to implement this initiative, it is necessary to ensure the stability of the main indicators of macroeconomic stability and financial sustainability. In the Republic of Tajikistan, as noted in the work, an insignificant amount of gold and foreign exchange reserves, a high level of unemployment and a low effective demand of the population were recorded.

Despite the sanctions and tense political relations between Russia and Ukraine, at present, the countries have one of the largest volumes of mutual accumulated direct investments. In particular, according to the data of the Central Bank of the Russian Federation, at the end of 2018, the total volume of Russian FDI stock in Ukraine amounted to 3,1 billion USD, thus only slightly behind Belarus (4 billion USD) and Kazakhstan (3,3 billion USD). The share of accumulated direct investment from Ukraine

to Russia exceeded 2,8 billion USD. However, most of the companies' investments in Ukraine were made before 2014. Analysis of the dynamics of FDI flows in the period from 2016 to 2019 reveals a reduction in capital between countries. According to the database "Monitoring of Mutual Investments CIS - 2017", the largest Russian banks "Vnesheconombank", "Sberbank", "Alfa-Bank", "VTB" Group in 2015-2016 increased the size of the authorized capital of subsidiaries in the Ukrainian market. However, small credit institutions with a share of Russian capital ceased their activities in Ukraine. In 2017-2018 most of the FDI between countries was also directed to the financial sector with the aim of capitalizing on subsidiaries. In 2016, there was a decrease in the investment activity of Russian companies in the Ukrainian retail market.

FDI is one of the promising areas for the development of economic, scientific and technical relations between Russia and Azerbaijan. For a more detailed analysis, it is necessary to consider the volume of direct investment between the countries, due to the fact that FDI plays a major role in the development of cooperation between Russia and Azerbaijan at the present stage. According to the Central Bank of the Russian Federation, the volume of accumulated direct investments in Russia from Azerbaijan at the end of 2019 amounted to 572 million USD. The total stock of FDI in Azerbaijan from Russia in 2019 exceeded 219 million USD. This indicates that Russia is an important strategic partner for Azerbaijan. Today, there is significant untapped potential in investment cooperation between Russia and Azerbaijan in the non-oil sector. Investment cooperation between the countries has certain prospects and trends of stable growth. The development of integration processes in the world and the need to attract foreign direct investment have become important factors in reforming the economies of Russia and Azerbaijan. It should be noted that in the 90s, investment cooperation between Russia and Azerbaijan was practically absent.

Since 2001, after the signing of several cooperation agreements between the countries, the flow of investments from Azerbaijan to Russia has significantly increased 10 times to 111 million USD. According to the IMF, at the beginning of 2019, in terms of FDI stock in Azerbaijan, Russia lags behind investments by Turkey, Great Britain, Georgia, Norway, Iran and Cyprus, which account for about 20 billion USD in investments. The increase in mutual FDI in 2016 was mainly due to the strengthening of the Russian ruble and the recovery of economic activity in Russia. In 2007-2018. the main flow of direct investments from Russia to Azerbaijan was concentrated in the fuel and energy sector. As for the sectoral structure, the most interesting sectors for Russian business are agriculture, building and financial spheres, medicine, consulting and car manufacturing in Azerbaijan. Investment cooperation between the two countries is developing quite steadily: more than 600 joint ventures with Russia are fruitfully operating in the Azerbaijani market.

The main part of the projects of the CIS countries is financed through financing from the Eurasian Development Bank (EDB) and the Eurasian Fund for Stabilization and Development (EFSD). Currently, in order to attract FDI to the CIS, as well as to develop their further economic cooperation, the following measures must be taken:

- form joint ventures with the participation of the state and private investors in priority sectors of the economy. Government support of stakeholders in the creation of joint ventures in the field of tourism and information technology will contribute to the development of economic cooperation;
- improve cooperation in innovation sphere and it is necessary to stimulate innovation. The CIS countries lag significantly behind the leading European countries in terms of R&D expenditures, which worsens the investment attractiveness of the region under study. One of the promising areas for enhancing cooperation between countries in the CIS space should be the formation of a joint program for the development of modern technologies of the fourth industrial revolution for the structural and technological modernization of the economies of the studied countries, where Russia, first of all, will offer profitable projects for all countries of the regional association.

These activities will contribute to the development of investment cooperation between Russia and Azerbaijan and will ensure the stability of economic growth in both states. In modern conditions, it seems necessary to reduce the time required for obtaining permits to simplify the conditions for starting a business. It is important to expand the activities of financial funds, to develop additional sovereign direct investment funds and agencies to attract FDI in all constituent entities of Russia. Thirdly, it is necessary to create joint ventures with the participation of private business and the state in the field of high technologies. After the imposed sanctions, Russia needs to intensify cooperation with the CIS countries and the Middle East.

Thus, it is necessary to develop a specialized working scheme in the field of PPP, the main activity of which will be the search and organization of cooperation relations with foreign investors. In connection with the imposition of sanctions against Russia in 2014, a number of World Bank organizations stopped lending to PPP projects. It is necessary to stimulate investment activity between the CIS countries, as well as to strengthen cooperation with Asian banks, direct investment funds (DIF) to finance joint projects. It is worth noting that China, Turkey, Saudi Arabia and India can act as investors for FDI in the region in the long term. In order to attract long-term investments, growth of the national economy and effective relationships between private institutions and the state, it is necessary to develop PPP. For this, it is necessary to attract new sources of financing for the development of the economy. With a budget deficit, a forced measure

is the search for extra-budgetary sources of funding. Based on the experience of foreign countries, it should be noted that PPP plays a key role in intensifying FDI in the country's economy. Thanks to the ability of private business, such as flexibility to innovate and mobility, it surpasses the state. For sustainable development of the national economy by attracting FDI, it is necessary to use the PPP mechanism.

At the beginning of 2018, 2 980 projects were implemented in Russia. The total volume of private investments aimed at the development of infrastructure facilities amounted to 1.8 trillion rubles. The main flow of foreign capital is concentrated in such sectors as: infrastructure, social, energy and utilities infrastructure. However, according to the forecasts of the National PPP Center, in 2019 the unmet need for infrastructure investments in Russia will be noted at the level of 1.6 trillion rubles. One of the main problems of financing PPP projects in the CIS, in comparison with countries with developed economies, is a significant excess of public investments over private ones.

The main limiting factors for attracting FDI in PPP projects within the CIS are:

- differentiation and instability of indicators of macroeconomic stability and financial sustainability, geopolitical and legislative factors;
- high cost of the loan, which prevents the attraction of foreign investors;
- administrative barriers: a high level of bureaucracy. Obstacles to foreign investment include long project implementation times, as well as a lack of experience in preparing them.

It seems important to note that the obstacles to the implementation of investment projects in countries such as Armenia, Kyrgyzstan, Tajikistan, Moldova are low economic attractiveness for foreign investors. All CIS countries have a high share of state-owned companies. The risks limiting the expansion of cooperation in the field of FDI include political risks and difficult conditions for starting a business in most of the countries of the union, a closed economy (information secrecy) in Turkmenistan.

Russia is the main investor of long-term direct investments in the CIS space. Major Russian companies (Gazprom, Lukoil) and banks (Sberbank, VTB and others) are the initiators of business projects. The main industries that account for large projects are manufacturing and extractive industries. The most active FDI pairs are Russia-Kazakhstan and Belarus-Russia. Despite the tense Russian-Ukrainian foreign economic relations, in terms of the total volume of accumulated FDI in 2018, the countries rank third within the CIS. The main flow of investment between these countries is concentrated in the financial sector. However, there is a downward trend in. Domestic mutual direct investment is inferior to foreign FDI. For example, Turkey is one of the main investors for Azerbaijan. Most of the investments in Tajikistan and Kyrgyzstan come from China. The largest volume of FDI in Russia, Ukraine and Moldova comes from offshore jurisdictions (Cyprus, the Netherlands and Luxembourg). An important

vector for the development of economic interaction of the studied countries in the field of FDI is the implementation of bilateral and multilateral projects in the field of high technologies.

3.3. Prospects for attracting foreign direct investment in the economies of the CIS countries

An important condition for the successful deepening of economic cooperation between the CIS countries is the development of joint sovereign Direct Investment Funds (DIF) in order to attract financial resources. The information presented in Table 3.3 reveals that at the present stage, Russia and Kazakhstan are the main initiators of the creation of a joint investment platform to enhance the inflow of FDI to the CIS countries. Russian Direct Investment Fund (RDIF) conducts active investment activities and acts as a co-investor in the implementation of major projects with such countries as: China, India, Turkey, Bahrain, Korea, Japan, Vietnam, Saudi Arabia, Italy, France. The volume of attracted investments is 40 billion USD¹⁴.

In 2017, an agreement was signed between Russia and Armenia on the creation of an investment fund. Despite this fact, no bilateral FDI projects have been implemented between the Armenian company “MSV Investments” and RDIF. The analysis made it possible to reveal that a certain part of the projects is not being implemented. For example, in 2014, Azerbaijan and Russia came up with an initiative to create a bilateral investment fund. However, the announced deal did not take effect. The lack of joint direct investment funds between individual CIS partner countries is one of the main problems in financing projects, and as a result, deepening economic cooperation between the states under study.

Currently, the CIS countries are pursuing an active policy to expand economic cooperation with third countries. For example, in 2018, the UAE and Uzbekistan decided to form a sovereign fund for the short term. In Armenia, the EBRD supports the idea of creating a Small and Medium Entrepreneurship Fund. Asian countries are key investors in Azerbaijan. In 2013, the European Development and Investment Fund in Moldova (EDIFM) was formed in Moldova with a capital of USD 150 million. In Ukraine, the founders of many DIFs are investment companies from the EU.

Based on the foregoing, the RDIF fund in 2011-2018 played a positive role in attracting long-term investments in the Russian economy. The formation of regional agencies for attracting FDI between the CIS member states will significantly reduce the costs of the central budget. For the implementation of this initiative, state support is required, which will have a favorable effect on the development of the investment climate of the CIS.

¹⁴ Russian Direct Investment Fund <https://rdif.ru/Partnership/>

Table 3.3 Direct investment funds in the CIS member states

Fund name	Country	Year	Authorized capital	Goal
1	2	3	4	5
RDIF	Russia	2011	10 billion USD	investing in leading companies in the most promising sectors of the economy. The fund attracted USD 40 billion of foreign investment in the national economy
IFK	Kazakhstan	2019	1 billion USD	implementation of major breakthrough projects in the non-primary sector, in particular, attracting FDI in the manufacturing industry, the agro-industrial complex and others
DIF	Uzbekistan	2019	1 billion USD	attracting direct foreign investment in expanding production and as a result, increasing the competitiveness of the national economy
Baring Vostok	Russia Kazakhstan	2012	1,5 billion USD	making investments in industries such as telecommunications and software
UFG Private Equity	Russia	2007	712 million USD	attracting direct investment in fast-growing companies in Russia and the CIS in the field of healthcare
Russian-Kyrgyz Development Fund	Russia Kyrgyzstan	2014	500 million USD	development of the Kyrgyz economy, as well as the deepening of economic interaction between the two countries in the context of Eurasian integration. The main tasks are participation in the development of enterprises of the financial

				sector of economies, the use of modern methods of corporate management.
AVG Capital Partners	Russia	2009	200 million USD	attracting long-term investments in the sectors of the Russian agro-industrial complex from crop and livestock production to the production of final consumer goods
EDIFM	Moldova	2013	150 million USD	support of projects that are most effective and important for improving the living standards of the population, the introduction of modern technologies, ensuring employment population
Dragon Capital	Ukraine	2015	150 million USD	implementation and attraction of direct investments in various sectors of the Ukrainian economy to provide local enterprises with financial and management support in order to obtain the latest technologies

One of the promising areas is the development of cooperation at the level of interstate associations of the CIS and BRICS, which are capable of creating a powerful common space of the associated economy. This is a qualitatively new level of economic interaction between states, which opens up colossal prospects for economic development, forming new competitive advantages and wide opportunities for all partner countries in the modern global world.

Currently, the CIS member states do not have the required volume of mutual flows of foreign direct investment for the implementation of large infrastructure and innovation projects. One of the key areas of development of the post-Soviet countries is the deepening of economic interaction between the parties in the field of FDI at the level of regional groupings of the BRICS and the CIS. At the present stage, China continues to be the main investor in the CIS association.

According to a report by the EDB Center for Integration Studies, by 2018, the volume of FDI accumulated by Chinese corporations in five EAEU countries, as well as in Azerbaijan, Tajikistan and Ukraine amounted to 33.7 billion USD (an increase of 12.7%). The largest volume of Chinese capital investment was in Kazakhstan (21.5 billion \$) and Russia (8.2 billion \$). According to EDB experts, in the period from 2010 to the present, the remaining sectors of the CIS economy accounted for less than 5% of the total volume of investments. In modern conditions, the oil industry of Kazakhstan continues to be the most attractive industry for direct investors from China.

RDIF is the largest sovereign fund within the CIS and BRICS in terms of authorized capital and implemented joint projects. The goal of the fund is to attract investment to leading companies in the most promising sectors of the economy. The volume of attracted financial resources from the sovereign fund to Russia exceeds 40 billion USD. The China Investment Corporation (CIC), together with RDIF, organized a fund with an authorized capital of 2 billion USD, which is reflected in Table 3.4.

Table 3.4 Joint investment funds of the CIS and BRICS countries

Year	Investor country	Recipient Country	Deal object	Deal volume
2012	CIC, China	RDIF, Russia	Russia-China Investment Fund	2 billion USD
2016	NIF, India	RDIF, Russia	Russian-Indian Investment Fund	1,5 billion USD
2018	CITIC, China	National Investment Holding “Baiterek”, Kazakhstan	Eurasian Nurlly Investment Fund	500 million USD
2016	TUS HOLDING, China	RCIF, Russia	Russian-Chinese Venture Fund	100 million USD

The main conclusions based on the analysis of the main cross-border investment processes are:

- RDIF and Kazakhstan's sovereign private equity funds are the main investors within the BRICS. The weakest interaction with the BRICS countries was noted with such partners as Azerbaijan, Kyrgyzstan, Armenia and Belarus;
- most of the attracted FDI from the BRICS countries falls on the fuel and energy sectors of Russia and Kazakhstan;
- the largest partners for the CIS countries are China and India.

Expansion of economic cooperation in the field of FDI between the CIS and BRICS countries will increase mutual settlements of national currencies in foreign

economic transactions and it will make it possible to strengthen the exchange rates of national currencies in foreign economic operations.

Cooperation in the field of FDI at the level of interstate groupings of the CIS-EAEU, CIS-BRICS, CIS-ASEAN is also a promising vector of development. This will make it possible to implement multilateral projects, and as a result, to expand in depth and breadth the economic interaction of the CIS member states (both at the level of an intragroup regional association and in individual countries that are part of the union). However, the unstable investment climate caused by a number of factors studied above is the main obstacle to the development of mutual cooperation of the studied group of states.

The regional association of the CIS can become one of the most favorable regions for attracting FDI, as it possesses large reserves of natural gas, coal, oil and other resources, developed industry and is long-standing neighbors. In this regard, in order to deepen cooperation in the field of FDI with the BRICS countries, it seems important to develop funds of all forms of ownership to attract long-term investments, taking into account regional characteristics. To attract FDI to the CIS countries, contributing to the deepening of their economic cooperation, it is necessary to apply the following measures:

In order to optimize the investment interaction of the CIS countries, it is important to take targeted measures aimed at creating a favorable investment climate. Thus, it is necessary to develop targeted programs, form special funds of all forms of ownership, and create agencies for attracting FDI. One of the important motives for the development of the integration process is the creation of regional collective funds of financial resources. It seems important to note that within the CIS, RDIF is the most active in the search for private investors for the implementation of joint projects. Based on the analysis of the websites of operating foreign direct investment funds and the CIS countries, it is important to note that there is no clearly developed program in which the following questions should be considered: “What foreign investors do the CIS countries need to intensify their economic cooperation?”, “In which industries do you need to attract long-term investments?”, “What amount of financial resources is required for the implementation of joint projects in the region?”. Formation of FDI agencies will allow to optimize the load on the expenditure side of the budgets of the CIS countries. The formation within the CIS of joint bilateral and multilateral development funds to attract FDI to national economies will be a key factor in the development of their economic cooperation. Figure 3.5 shows the scheme of cooperation of the CIS partner countries in the field of direct investment.

The proposed visual model will contribute to the creation of effective conditions for enhancing the inflow of FDI into the CIS economy. It is important to support PPPs in

order to attract FDI in the high-tech sector. In our opinion, the EDB should become guarantors of protection of invested FDI with the participation of PPP projects for the CIS partner countries. It should be noted that the model of economic interaction at the national level, developed on the basis of a pre-agreed share of compensations from currency, geopolitical, legislative and other risks in the form of guarantees from the development bank and the anti-crisis fund, will contribute to the growth of investor confidence, and, as a result, will increase the share of implemented projects within the CIS. This will create a favorable investment regime between the countries of the union. Currently, the volume of EDB investments exceeds 9 billion USD. Most of the projects are in areas such as transport, infrastructure and energy.

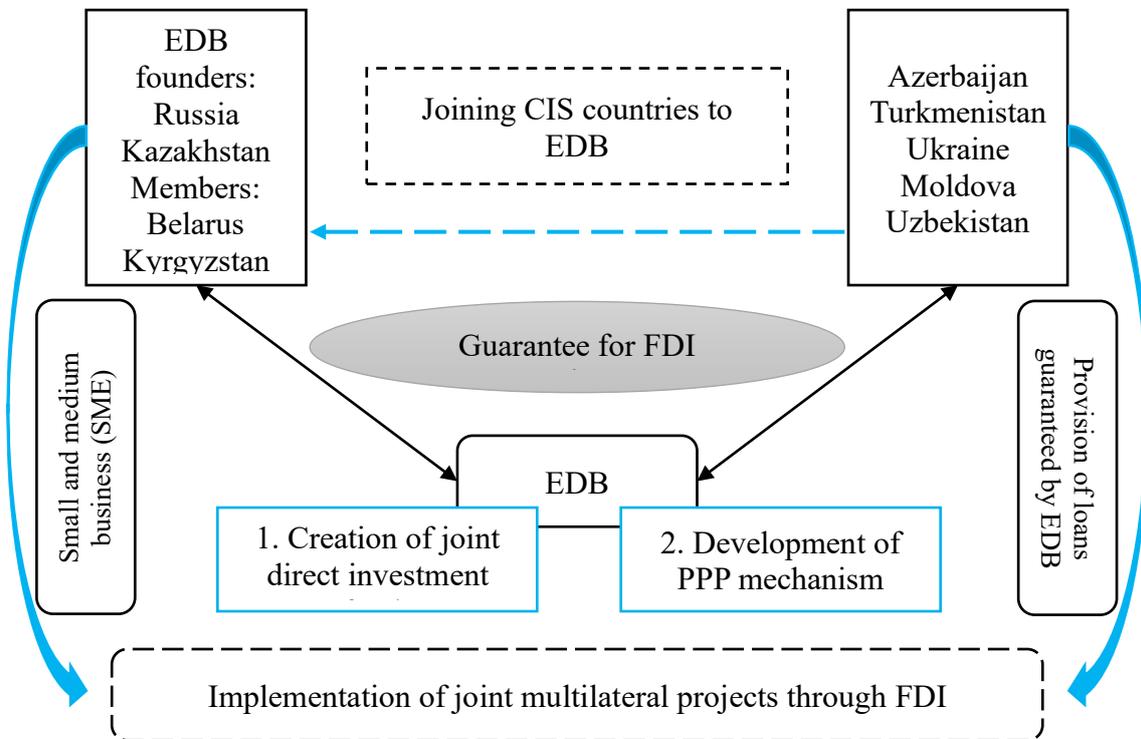


Figure 3.5 CIS Cooperation Scheme for FDI with EDB participation

To develop specialized centers and funds for the development of SMEs, namely, guarantee funds operating on market principles, in order to compensate for the risks of financial and credit institutions. The creation of guarantee funds within the CIS can be carried out at the expense of the EDB.

Develop a multilateral Agreement on the Encouragement and Reciprocal Protection of Investments of the CIS Member States and consider in the future the possibility of accession of the Union countries to the 1976 OECD Declaration on

International Investment and Multinational Enterprises. Preparation of a multilateral document will allow the countries of the regional association to obtain certain advantages:

- formation of unified rules for regulating FDI, which will contribute to the creation of a unified state investment policy based on the principles of stability, transparency and predictability of the investment process;
- the creation of uniform rules and standards for FDI will increase coherence between national investment policies and reduce the uncertainty of investors and contracting parties.

Currently, only Kazakhstan from the CIS countries is a member of the Declaration (a total of 38 member countries). Accession to the Foreign Investment Agreement will provide a number of benefits, such as, development of business responsibility standards, and as a result, improvement of the investment climate; creation of new rules and regulations for the regulation of foreign investments based on the use of foreign practices.

Based on the assessment of the data of the CIS countries in the world rankings, it was concluded that the CIS countries, in order to create an attractive investment climate, need to speed up bureaucratic procedures, which will facilitate the procedures for registering land plots, minimize the period of obtaining technical specifications for the facility's power supply.

4. CONCLUSION

Currently, there is a significant unrealized potential in the cooperation of the CIS countries in the field of FDI. The intensification of the process of mutual direct investment is of key importance for the prospects for economic cooperation of the CIS countries, both among themselves and with countries outside the union. A study of the institutional foundations of integration processes within the CIS allows us to conclude that the CIS is a full-fledged integration group, within which the necessary institutions have been created to develop economic cooperation. This fact confirms the feasibility of attracting FDI to expand cooperation between the countries of the union at the present stage.

However, the study showed that the total volume of attracted FDI in 2018 across all CIS countries decreased by more than 1.5 times (the decline was 36.2%), which is in line with the downward trend in direct investment flows in the world. A comparative analysis of mutual direct investments within the CIS makes it possible to reveal that Russia is a key investor for the member states of the union. In 2018, the volume of accumulated direct investments by the CIS countries exceeded 714 billion USD. In 2000-2018 total inward FDI in the CIS increased 14 times. However, the share of stock of FDI in Russia exceeds the total level of stock of FDI of all other CIS countries. At the present stage, interaction between individual CIS countries in the field of direct investment is practically not supported. In particular, Kyrgyzstan, Tajikistan, Turkmenistan and Moldova cooperate poorly with other CIS countries.

The general factors (weak and strong sides, opportunities for development and threats) of the development of integration processes in the CIS space, which influence the flows of mutual direct investments between the studied countries, have been determined. Through a comprehensive analysis of indicators of macroeconomic stability and financial sustainability, it was revealed that the CIS countries have common problems that affect the development of economic cooperation between the Union countries at the present stage. The studied countries are characterized by significant differences in the scale and levels of development of their national economies. The main obstacles include high inflation, a low level of effective demand, a decrease in the share of savings of the population, insufficient volume of gold and foreign exchange reserves in individual CIS member countries.

It has been established that the main groups of reasons hindering the development of cooperation between the CIS countries in the field of direct investment are: the differentiation of macroeconomic indicators, legislative risks, institutional obstacles and administrative barriers. It is important to note that the obstacles to the implementation of investment projects in countries such as Armenia, Kyrgyzstan, Tajikistan, Moldova are

low economic attractiveness for foreign investors. In the partner countries of the CIS, the share of state-owned companies prevails. The risks limiting the expansion of cooperation in the field of FDI include political risks and difficult conditions for the introduction of business in most countries of the Union, a closed economy (information secrecy).

A study of FDI projects led to the following conclusions:

Russia is the main investor of long-term investments in the CIS space. The projects are initiated by the largest Russian companies (Gazprom, Lukoil) and banks (Sberbank, VTB and others). The main industries for which large projects fall are manufacturing and extractive industries;

The most active investment pairs are Russia-Kazakhstan and Russia-Belarus. Despite the tense foreign economic relations between Russia and Ukraine, in terms of the total volume of accumulated FDI in 2018, the countries rank third within the CIS. The main flow of investment between these countries is concentrated in the financial sector. However, there is a downward trend;

Domestic mutual direct investment is inferior to foreign FDI. For example, Turkey and Great Britain are the main investors for Azerbaijan. Most of the investments in Tajikistan and Kyrgyzstan come from China. A significant amount of FDI in Russia, Ukraine and Moldova comes from offshore jurisdictions (Cyprus, the Netherlands and Luxembourg).

On the basis of the developed methodology and analysis of the positions of the CIS member states in international ratings, it was concluded that currently Kazakhstan, Russia and Azerbaijan are the most favorable countries for foreign investors.

Recommendations have been developed aimed at attracting long-term direct foreign capital to the CIS countries, contributing to the development of further mutual economic cooperation of the studied group of states:

- formation of agencies for attracting FDI and special funds of all forms of ownership;
- creation of a Free Trade Zone (FTZ) between the EAEU and the CIS member states and partners that did not join the CIS FTZ in 2011;
- development of a single Agreement on the encouragement and mutual protection of investments of the CIS member states, which forms the legal environment for foreign direct investment;
- improving the business environment for private investors in the CIS countries by speeding up bureaucratic procedures, supporting the PPP mechanism. In my opinion, the EDB should become guarantors of the protection of invested FDI from currency, geopolitical and legal risks involving PPP projects for the CIS partner

countries. The proposed scheme of cooperation of the CIS countries in the field of FDI with the participation of the development bank at the supranational level will contribute to the growth of confidence of foreign investors.

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