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Trends in Trade and Investment Flows between the EU and the BRIC Countries

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Abstract. *In this paper, we intend to present an in-depth comparative analysis of the trade and investment flows between the EU member states and the four strongest emerging countries: Brazil, Russia, India and China (BRIC), during 2004-2009*[(1)] *and beyond. In the EU-BRIC equation, we include for comparison countries like the USA and Japan, and their respective relations with BRIC.*

The purpose of the paper is to contribute to the discussion of the integrated issues related to trade and investments, since the EU-BRIC relations represent one of the most important „pieces" in this „global puzzle".

First, relying on the statistics published by Eurostat, the WTO, the UNCTAD and the national authorities, our study highlights the main trends of the trade and investment flows between the EU and BRIC, in comparison with those of the USA and BRIC or Japan and BRIC.

Second, we emphasize the principal factors that contributed to these developments and their economical consequences. For example, the global economical situation, the political decisions, the resource scarcity or the (still) existing fiscal paradises play a major role in the celerity and magnitude of the trade and investment flows.

Third, on the basis of the actual data and information, our analysis outlines the perspectives of the EU-BRIC trade and investment relations in the long run.

Following this rationale, the paper is structured around three main sections, followed by a summary of the conclusions of the author.

Keywords: trade; FDI flows; FDI stocks; EU-27; BRIC.

JEL Codes: F10, F14, F21, F23, F59, O24, O52-O54, O57.
REL Code: 10D.

Structure

Motivation for the topic "Trends in trade and investment flows between the EU and the BRIC countries":

1. Comparisons and interrelations between the EU and BRIC countries in the field of trade in goods, services and FDI flows.
2. Determinants of trade and investment exchanges between the EU and the BRIC countries.
3. Perspectives of trade and investment flows between the EU and BRIC countries through the lens of the strategic bilateral relationships.

Conclusions.

Motivation for the topic "Trends in trade and investment flows between the EU and the BRIC countries"

We have chosen this research topic for two main reasons. *First*, BRIC is the group of the most powerful emerging economies which record remarkable growth rates and ascending shares in the global trade and investment flows. And the development of the economic and diplomatic relationships among the world's most powerful economies is without precedent. *Second*, as the BRIC countries move from the factor driven (India) or efficiency driven stage of development (China, Russia and Brazil) to the stage of development based on innovation (which is the case for the most of the EU member countries), the interaction between the EU and BRIC deepens. The cooperation of the BRIC countries with the EU (and other developed economies) is the key for the implementation of their national modernization and innovation strategies. And, once they become "intelligent" economies based on innovation and new technologies, some major issues may also be settled, such as environment deterioration, dramatic social imbalances and development gaps among regions.

BRIC – the group of the globally most powerful emerging economies

Since 2001, the international experts have used the "BRIC" acronym in order to define the group of countries including Brazil, Russia, India and China. From an institutional point of view, the coalition of the most powerful emerging economies of the planet was looked at with circumspection. It was asserted that BRIC were the only worldwide coalition that first prefigured „in the mind of the economists", and only subsequently turned into „reality".(2) Nevertheless, after two high level summits (Ekaterinburg, June 16, 2009 and Brasilia, April 15, 2010) and the signals mutually sent by the leaders of the four most powerful emerging economies, we can assert that the BRIC is already instutionalized.

The group has even the intention to extend, one first step in this direction being the invitation addressed to South Africa to attend the third BRIC summit from April 2011, in China.

Among the BRIC priorities there are: strengthening the G-20 role on the international scene, reforming the international financial system, jointly with the reform of the UN, World Bank, IMF and WTO in respect of increasing the participation of the developing economies at the decision-making process, attaining the Millennium Development Goals, sustainable development and cooperation – both among the BRIC countries and between them and the rest of the world.

In the hierarchy of the world countries in terms of GDP (at market prices), China surpassed Japan in 2010 ranking second, after the USA.(3) The group of the EU-27 cumulated a GDP at current prices of around USD 16,000 billion at the level of year 2010 (26% of total), exceeding the USA (24%) and the BRIC group (17%). In contrast, as for GDP at PPP, the BRIC group already exceeds the EU (24%, as compared to 21%).

Although the world financial and economic crisis left differentially its "print" over each of the BRIC countries, and the anti-crisis measures taken by the four governments had been different, the growth rates of China, India and Brazil were robust at the level of the year 2010, exceeding the average of the emerging and developing economies group of countries. Instead, the GDP growth rate of Russia is estimated at 4% in 2010, by around 3 percentage points under the average of the emerging and developing economies group.

The IMF forecasts for 2015 the following world hierarchy according to GDP (at market prices): 1. the USA (almost USD 18,000 billion), 2. China (circa USD 10,000 billion), 3. Japan (about USD 6,380 billion), 4. Germany (almost USD 3,860 billion), 5. France (USD 3,112 billion), 6. Brazil (circa USD 3,100 billion), 7. Great Britain (USD 3,050 billion), 8. The Russian Federation (over USD 2,900 billion), 9. India (around USD 2,500 billion), followed by 10. Italy (almost USD 2,400 billion) and 11. Canada (almost 2,000 USD). According to these forecasts, two countries of G-7, Italy and Canada, shall be overtaken by the BRIC countries until 2015 in terms of GDP, at market prices (IMF, 2011a and 2011b).

Nevertheless, although China ranks already second in the hierarchy of the world countries according to GDP, in current prices, its GDP / inhabitant remains at low levels (under USD 4,400 in current prices, 2010). Relatively, GDP / inhabitant in India is estimated at USD 1,265, in Brazil USD 10,800, and in Russia over USD 10,400 – well below the figures recorded by the USA (over USD 47,000), Japan (almost USD 43,000) and the EU-15 countries (IMF, 2011b).

The four most powerful emerging economies worldwide have many common features, such as: robust consumption markets, rich and various natural resources, competitive sectors in agriculture and industry, solid foreign exchange reserves, but, at the same time, many different characteristics, for instance the endowment with factors of production, or the predominance of one or another engine of economic growth.

The researchers from the Vienna Institute for International Economic Studies (WIIW) are among the most proactive economists in the field of the analysis of BRIC countries. In their opinion, Brazil is a service economy, oriented toward the domestic market, the development of Russia is based on energy and raw materials export, India is, as Brazil, a service economy, but export-oriented, while the main engines of the Chinese economy are the export of manufactures and the foreign direct investment (FDI) (WIIW, 2009).

BRIC countries are included in the category of world states with vast populations (aggregated share of 42.6% of world total, as compared to 7.7% in EU), large surfaces and rich natural resources (including natural gas, oil, coal, rare earth, arable land), and in the years prior to the world financial and economic crisis recorded high rates of economic growth and made significant progress in the field of the knowledge economy.

BRIC group has significant foreign exchange reserves – over 40% of the world total (gold reserves excluded), at the end of September 2010; China had around 30% of the international foreign exchange reserves (USD 2,650 billion), Russia 5.8% (USD 501 billion), India 3.4% (USD 296 billion), and Brazil 3.2% (USD 281 billion). In 2010, the imports of BRIC countries were covered by their foreign currency reserves in proportion of: 118%, 153%, 76% and, respectively, 170% – lower levels than those recorded in 2009 (136%, 165%, 82% and, respectively, 211%) (IMF, 2010b, p. 203), due to imports increase.

As regards gold reserves, at the level of September 2010, China had around 3.9% of the international gold reserves, Russia 2.7%, India 2%, and Brazil 0.1%, meaning an aggregate rate of 8.7% of the world total for BRIC group. Gold reserves still have a very low share in the total reserves of BRIC countries: 0.5%, 5.7%, 7.4% and, respectively, 1.5%, as compared to the developed economies (for example, the corresponding shares were for the USA 72.1%, for Germany 67.4%, and for Portugal around 80%).

In the field of the international trade in goods, the BRIC group had in 2009 a share of 14.5% in the world exports and 12.5% in imports. The corresponding rates in the international trade in services were lower, of 8.4% in exports and 10.9% in imports (WTO, 2010c). The BRIC countries have become in the recent years attractive destinations (but significant sources as well) for (of) FDI. In 2009, at the global level, the group attracted 17.4% of the FDI inflows and contributed with 10% to the FDI outflows. BRIC's share in the global FDI stock was lower, of 7.3% in the inward stock and 3.7% in the outward stock (UNCTAD, 2010), which also highlights the acceleration of the integration process of the BRIC countries into the world economy in the recent period or, equivalently, the *time* gap between BRIC group and the developed countries (which still hold the highest share of the global trading and investment flows) in relation to the international integration.

Table 1

Shares of the BRIC and EU in the global FDI flows and stocks and the international trade in goods and services, in 2009 (in %)

Country/group of countries	Share in the FDI flows		Share in the FDI stocks		Share in the international trade in goods[2]		Share in the international trade in services[2]	
	Inflows	Outflows	Inward	Outward	Export	Import	Export	Import
Brazil	2.3	-[1]	2.3	0.8	1.2	1.1	0.8	1.4
Russia	3.5	4.2	1.4	1.3	2.4	1.5	1.2	1.9
India	3.1	1.4	0.9	0.4	1.3	2.0	2.6	2.5
China	8.5	4.4	2.7	1.2	9.6	7.9	3.8	5.0
BRIC	**17.4**	**10.0**	**7.3**	**3.7**	**14.5**	**12.5**	**8.4**	**10.9**
EU	**32.5**	**35.3**	**42.0**	**47.4**	**36.7**	**37.3**	**45.6**	**42.3**

Notes:

[1] The FDI flows generated by Brazil in 2009 recorded a value of -10 billion dollar, due to a surge of intra-firm borrowings, from the Brazilian subsidiaries abroad to the mother-companies. Before 2009, Brazil had generated significant FDI flows: in 2007, almost 13%, and in 2008 circa 25% of the total FDI outflows of the Latin America and Carribeans.

[2] Including the intra-EU trade and significant re-exports and imports for re-export.

Sources: UNCTAD (2010) and WTO (2010c).

Taking into account the EU intra+extra flows, EU-27, as entity, ranks first, in both world exports and imports of goods and services, and in FDI flows and stocks globally received and generated. Anyhow, EU shares in the international trade and investment flows had a declining track during the last years, by contrast with the trend of BRIC countries, whose shares in these flows substantially increased. And as regards the extra-community trade in goods, EU exports are slightly exceeded by the exports of the BRIC group.

Strategic character of the relationships between the EU and BRIC countries

As the BRIC countries move from the development stage based on factors of production (India) or efficiency driven (China, Russia and Brazil) to the innovation-based economies (classification according to World Economic Forum, 2010), the interactions between the EU and BRIC deepen.

The size and dynamic of the BRIC economies allow them to increase their capacity to absorb and generate innovation. *First*, these countries can innovate on a much larger scale, as compared to other economies, based on their own investments in research and development and improvement of labour force. *Second*, they have the financial capacity to acquire new technologies – licenses, machinery and equipment, even high-tech (HT) companies – and can attract scientists, managers and consultants. *Third*, all the BRIC countries represent attractive locations for foreign direct investments (FDI). From the four emerging economies analyzed, the case of China is the most relevant. For the biggest Asian economy, the access to technology was the basic reason for the liberalization of trade and investment flows. In other words, China opened its huge domestic market in exchange to the technology access (OECD, 2010b, p. 121).

Besides the development without precedent of the economic and diplomatic relationships among the most powerful emerging economies worldwide, the cooperation of the BRIC countries with the developed economies, mainly the EU, the USA and Japan, is the key for the implementation of their national strategies for modernization and innovation. China intends to become an innovation-oriented nation until 2020 and world leader in science and technology until 2050.(4) India wishes to become a developed country before 2020. At its turn, the Russian Federation, helped by the *Strategy 2020 – Long term social and economic development of the Russian Federation*, expects to become innovative, competitive at global level and join the world leaders list. Brazil, besides the ambitious strategies in energy and agriculture fields, has as target the acceleration of the innovation process at national level. Accordingly, the EU and other developed economies, world leaders in the field of innovation and high-tech products and services, play and will continue to play an essential role in the innovation process of the BRIC countries.

In the field of the knowledge-based economy, despite the remarkable scores in the innovation field, the BRIC countries still have a long distance to cover for catching up with the developed economies. As regards the quality of governance, the development of ICT infrastructure and the education and human resources, the BRIC countries still need the expertise of the developed countries, including the EU. On the other hand, the EU is dependent on the resources of BRIC economies and their markets. And these are just several reasons for the strategic character of the relationships between the EU and BRIC.

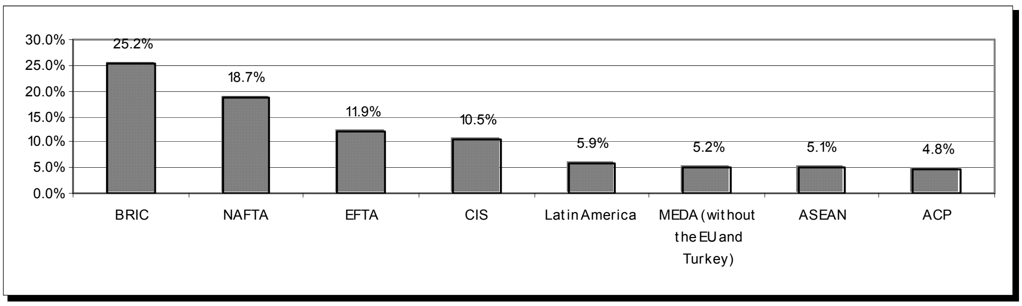
1. Comparisons and interrelations between the EU and BRIC countries in the field of trade in goods, services and FDI flows(5)

The integration process of Brazil, Russia, India and China into the global economy has started with delay, as compared to other countries. Russia's policy and its role in the Council for Mutual Economic Assistance

(CAER/COMECON) during the „cold war”, Brazil’s policy to substitute imports in view of sustaining the national „champions” and China’s policy of isolation from the rest of the world until 1978 are only a few elements which slowed down the integration process of these countries into the world economy. Instead, in the ‘90s, and especially during the last decade, the participation of the BRIC countries in the international trade and investment flows intensified.

At the same time, in the years 2000s, the role played by extra-community countries in the EU trade increased. Despite the fact that the internal market still concentrates the largest part of EU trade flows, the extra-community exports and imports record higher and higher shares in the total flows. Therefore, at the level of the year 2009, the extra-community exports of goods had a share of 35% in the EU total (intra+extra) exports, and the related imports around 38%. The situation is similar at the level of trade in services, except their slightly higher shares, and the extra-community exports share in the total EU exports which exceeds the extra-community imports share in the total EU imports (around 43% for export and 41% for import). These trends highlight the increasing relevance for the EU of the import sources and markets from outside the EU.

In 2009[6], the main partners of the EU in the field of trade in goods were: the USA (15.9% of total), China (12.9%), the Russian Federation (7.9%), Switzerland (7.1%), Norway (4.6%), Japan (4%), Turkey (3.5%), South Korea (2.3%), India (2.3%) and Brazil (2.1%). Instead, the trade in services was dominated by the USA (27.5% of total) and Switzerland (12.4%), China, Russia, India and Brazil holding much lower shares: 3.5%, 3.3%, 1.8% and, respectively 1.7%.



Notice: NAFTA – North American Free Trade Area, EFTA – European Free Trade Association, CIS – Community of the Independent States, MEDA – countries participating at the Euro-Mediterranean Partnership, ASEAN – Association of the Southeast Asian Nations, ACP – 79 countries from Africa, Caribbeans and Pacific.

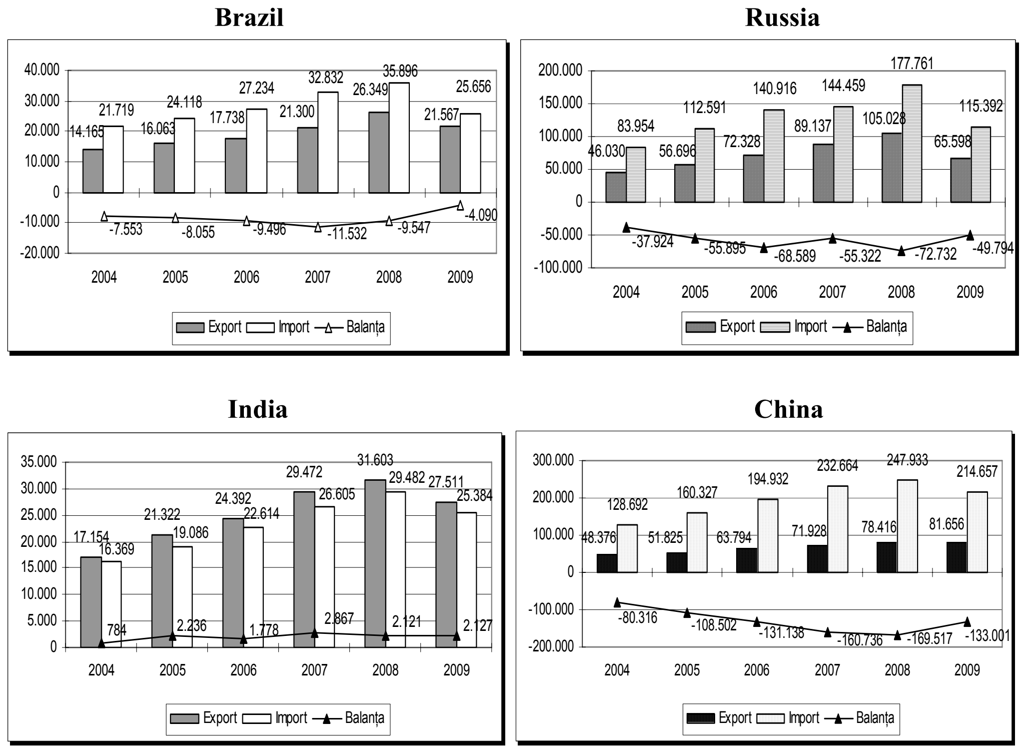
Source: DG Trade (2010).

Figure 1. *Main partners of the EU in the field of trade in goods, groups of countries breakdown (in %)*

While at the level of trade in goods, China, Russia, India and Brazil ranked 2nd, 3rd, 9th and 10th in the hierarchy of EU major trade partners, at the level of trade in services the positions were more modest: 3rd, 4th, 12th and, respectively, 13th.

At the level of trade in goods, the BRIC group had in 2009 a share of 25.2% in the EU trade, exceeding even the share held by the group of NAFTA countries, namely 18.7% of total.

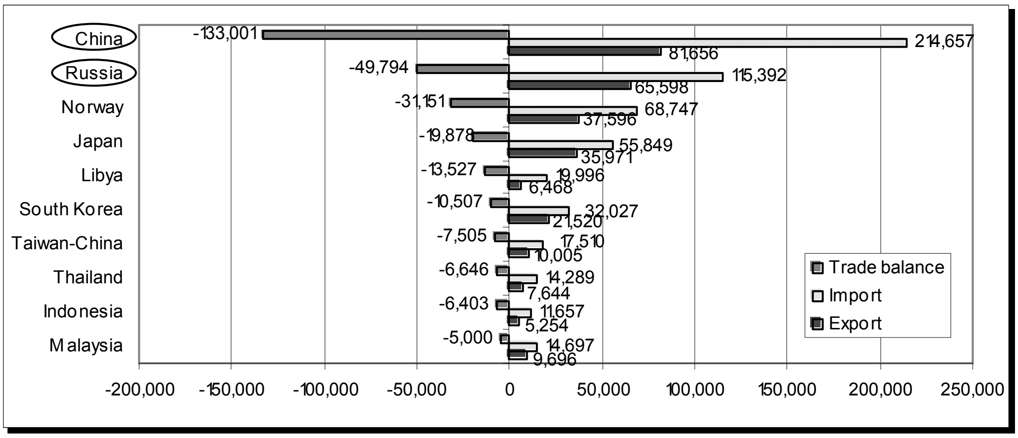
Taking into consideration the two trade flows, the BRIC group had in 2009 a share of 18% in the EU exports of goods (being overrun only by NAFTA, with a percentage of 22.2%) and 31.7% in imports (16.2 percentage points over NAFTA respective share). These market shares were reflected in a large EU-BRIC deficit of the balance of trade in goods: Euro 185 billion. The EU recorded an insignificant trade surplus in the relationship with India (Euro 2.1 billion) and a moderate deficit with Brazil (Euro 4.1 billion), while the deficits of trade balances with China and Russia were remarkable (Euro 133 billion and, respectively, Euro 50 billion).



Source: DG Trade (2010).

Figure 2. *Trade in goods between the EU and the BRIC countries, 2004-2009 (in million Euro)*

Besides, the highest trade deficits recorded by the EU in relation with its trade partners in 2009 were with China and Russia (Euro 133 billion and, respectively, Euro 50 billion – smaller in comparison with the figures at the level of 2008, of around Euro 170 billion and, respectively, Euro 70 billion).



Source: Calculations, based on the DG Trade (2010).

Figure 3. *The highest trade deficits recorded by the EU in relation with the main trade partners in 2009 (in million Euro)*

The EU-BRIC deficit in the field of trade in goods is even more significant if we take into consideration the total EU deficit in relation with its extra-community partners, which amounted in 2009 to around Euro 104 billion. In the preceding years, the EU-BRIC trade in goods balance recorded a deficit of Euro 249.6 billion in 2008 and Euro 224.6 billion in 2007.

The determinant element for the evolution of the trade in goods balance in 2009 was the world financial and economic crisis, which influenced also the EU trade in respect of diminishing the exports, imports, and, accordingly, the trade balances.

In 2009, as compared to 2008, the community exports to Russia decreased by 37.5%, those to India by around 13%, and to Brazil by 18%. In contrast with these reductions, the EU exports to China increased by around 4% during the same period. As regards imports, decreases of these flows were recorded in relation with all four BRIC countries (Russia 35%, India 14%, Brazil 28.5% and China 13.4%).

During 2000-2009, the shares of BRIC in the community exports of goods and, respectively, imports significantly increased, particularly distinguishing the spectacular trend of China and Russia shares on the EU market, mainly for import. China was in 2009 the third major export partner of the EU, Russia the fourth, India the eighth, and Brazil the 12th. In the same year, China was the main import source of the EU, Russia the third, Brazil the ninth, and India the tenth.

Table 2

Shares of the BRIC countries in the exports and imports of the EU in 2000 and 2009 – trade in goods (in %)

Share in the EU trade	Brazil		Russia		India		China	
	2000	2009	2000	2009	2000	2009	2000	2009
Export	2.0	2.0	2.7	6.0	1.6	2.5	3.0	7.5
Import	1.9	2.1	6.4	9.6	1.3	2.1	7.5	17.9

Source: DG Trade and Eurostat (2010).

Relatively, at the level of the trade in goods of the USA and Japan, the BRIC countries held in 2009 an aggregate share of 11.3% in American exports and 23.5% in the respective imports and 22.7% in the Japanese exports and 26.6% in the respective imports. The trade deficit of the USA in relation with the BRIC group was Euro 182 billion – very closed to that of EU-BRIC – while the Japanese trade deficit recorded a much lower figure: Euro 13.2 billion. As regards the trade balances of the USA with each BRIC country in 2009, it can be noticed the chronic deficit in relation with China (Euro 171.8 billion), moderate deficits with Russia and India (Euro 9.8 billion and, respectively, Euro 4 billion) and the surplus of Euro 3.7 billion with Brazil. By contrast, Japan recorded in the same year trade deficits with China, Russia and Brazil (Euro 9.5 billion, Euro 4 billion and, respectively, Euro 1.6 billion) and a modest surplus of Euro 1.9 billion with India.

Table 3

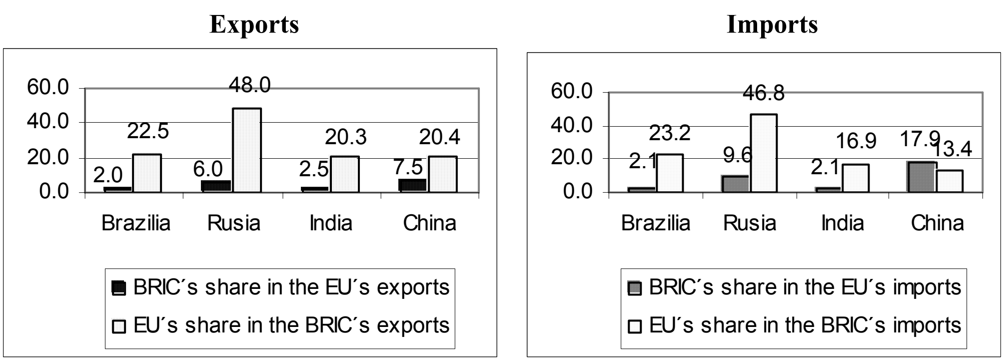
Shares of the BRIC countries in the exports and imports of the EU, the USA and Japan, in 2009 (in %)

Shares in the EU's trade	Brazil	Russia	India	China	Total
Export	2.0	6.0	2.5	7.5	**18.0**
Import	2.1	9.6	2.1	17.9	**31.7**
Share in the USA's trade					
Export	2.5	0.5	1.6	6.7	**11.3**
Import	1.3	1.2	1.4	19.6	**23.5**
Share in Japan's trade					
Export	0.8	0.6	1.2	20.1	**22.7**
Import	1.2	1.7	0.7	23.0	**26.6**

Source: DG Trade and Eurostat (2010).

For the USA, China is the third trade partner (14.5% of total), Brazil the seventh (1.8%), India the eighth (1.5%), and Russia only the 18th (0.9%). China is the main trade partner of Japan (21.5% of total trade flows), while Russia is the 19th (1.1%), Brazil the 21st (1%), and India the 23rd (0.9%).

According to the data provided by the European DG Trade, the EU is the main partner of the BRIC countries in the field of trade in goods, both for export and import. In 2009, the EU, as entity, succeeded to overrun Japan and to become the main exporter on the huge Chinese market, despite the high degree of economic integration existent in Asia. At its turn, China plays an important role in the trade flows of Brazil, Russian Federation and India, but its trade dependence on these three countries is low.



Notice: In this case, only the extra-EU trade has been taken into consideration.
Source: DG Trade (2010) and Eurostat (2010).

Figure 4. *EU and BRIC reciprocal shares in trade in goods in 2009 (bilateral trade dependency) (in %)*

The analysis of the interrelations between the EU and BRIC in the field of trade in goods, at the level of the year 2009, highlights the following conclusions:

- As regards the export, the dependence degree of BRIC countries upon the EU internal market is much higher than that of EU upon BRIC countries;
- The situation is similar for import, except the EU-China flows: China's share in the EU import (almost 18%) is higher than the EU share in China's imports (13.4%), although the EU is the main exporter on the Chinese market;
- Russia, and especially China, are more important for the EU as import sources, rather than export markets, which mirrors the community

trade (im)balance in relation with these countries (deficits of Euro 133 billion and, respectively, Euro 50 billion in 2009);

- The shares of Brazil in the exports and imports of goods of the EU are similar, of around 2%, while the rate of India in the EU export is higher than in import (2.5% and, respectively, 2.1%). Besides, the EU trade balance with Brazil is negative (Euro 4 billion at the level of the year 2009), while EU records surpluses with India (Euro 2.1 billion in 2009).

The negative effects generated by the world financial and economic crisis also influenced the trade in services in 2009. The EU exports to China, Russia and Brazil diminished in 2009 by 11%, 13.4% and, respectively, 7.4% as compared to the levels recorded in 2008, while the exports to India insignificantly increased (by 0.7%). At their turn, the community imports from China, Russia and India decreased by around 14%, 21.8% and, respectively 7.7%, and the imports from Brazil increased only by 1.6% in 2009, as compared to the level of 2008.

As regards the share held by BRIC group in the EU trade in services (export+import), this is much lower, as compared to the related shares in the trade in goods: 11.2% in exports and 9.1% in imports in the services sector, against 18% in exports and 31.7% in imports, in the trade in goods (Eurostat, 2010). But, in contrast with the deficit of the EU-BRIC trade in goods balance, of Euro 185 billion in 2009, the services trade balance recorded a surplus in 2009 (of Euro 16.3 billion), similar with the level of 2008 and by Euro 3 billion higher than the value recorded in 2007. This balance represents one quarter of the EU surplus in relation with all its extra-community partners. Consequently, the competitive benefits of the EU against BRIC are obvious in the services sector.

As regards the investments, during the period 2004-2008, the FDI flows of the EU to the rest of the world (at extra-community level) were exceeded by the intra-community flows, among the member countries. Instead, in 2009, the FDI flows received by the EU from the countries outside the Union (in aggregate value of Euro 221.7 billion), represented 59% of the total received flows. The situation was similar for the generated flows, namely the FDI flows generated by the EU in the extra-community countries (of Euro 263.3 billion) represented 54.7% of the total generated flows in 2009, in contrast with the previous period, when the share of the extra-community flows was exceeded by the share of the intra-community flows.

In comparison with the trade flows, the participation of the BRIC countries at the FDI flows of the EU is much lower. The gravitation centre was, during the whole period, the group of EU-15, which succeeded to concentrate the highest share of these flows. In 2008, among the EU countries, Spain was the main investor in Brazil, Great Britain in China and Russia, and Germany in India.

Table 4

BRIC shares in the EU trade and investment flows in 2009 (in %)

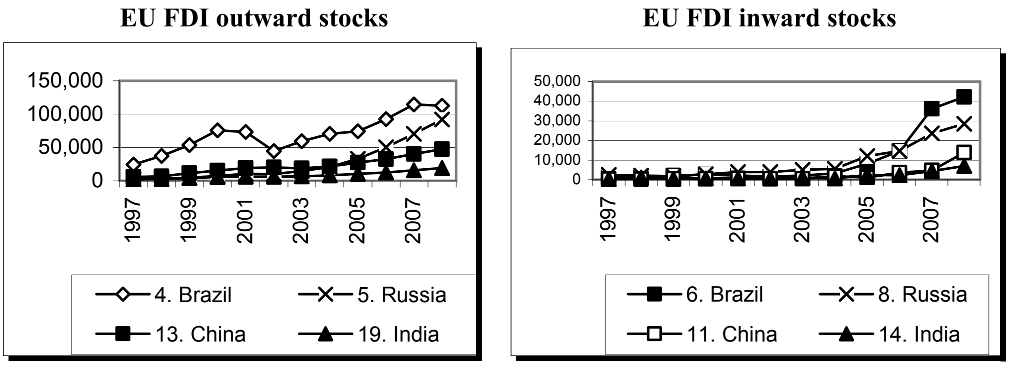
Share in the extra-EU trade in goods	Brazil	Russia	India	China	BRIC
Export	2.0	6.0	2.5	7.5	**18.0**
Import	2.1	9.6	2.1	17.9	**31.7**
Share in the extra-EU trade in services	**Brazil**	**Russia**	**India**	**China**	**BRIC**
Export	1.8	3.8	1.8	3.8	**11.2**
Import	1.5	2.6	1.8	3.2	**9.1**
Share in the extra-EU FDI	**Brazil**	**Russia**	**India**	**China**	**BRIC**
Inflows	1.3	1.4	0.2	0.1	**3.0**
Outflows	2.6	-	1.2	2	**5.8**

Notice: The value of the EU FDI outflows to Russia was negative in 2009.
Source: DG Trade and Eurostat (2010).

As regards Romania, according to the statistics provided on July 31, 2010 by the Trade Registry Office and the Romanian Centre for Foreign Trade and Investment Promotion, only China is included (among the BRIC countries) in the hierarchy of the 50 main investors (in trading companies with foreign participation), at the level of the whole Romania – ranking 17th, with almost 9,900 companies but only 1.14% of the total share capital.

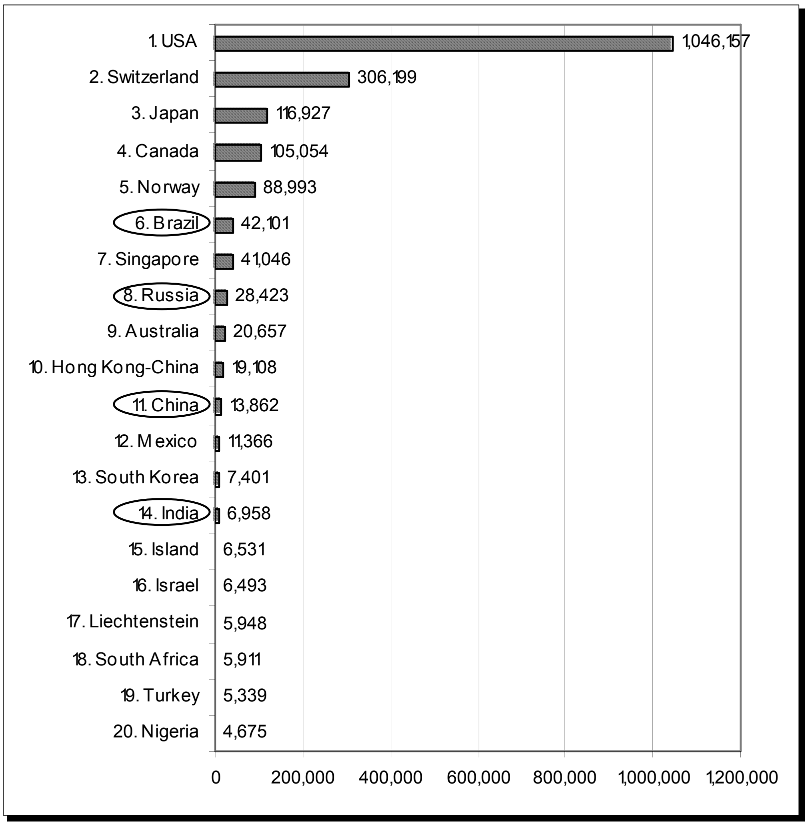
Taking into account the fact that the FDI bilateral flows record ample variations from one year to another due to the frequent changes at the level of their components (participations at capital, intra-company loans and re-invested profits) and fluctuations at the level of the number and value of mergers and acquisitions and of the green field investments, we shall refer below to the FDI stocks.

At the level of the year 2008, the FDI stocks received by the EU from extra-community countries amounted to Euro 2,421.4 billion (32% of total), and those generated by the EU amounted to Euro 3,253 billion (38% of total). As regards the FDI stocks received and generated by the EU, the corresponding shares of the BRIC group were 3.8% and, respectively 8.4%.



Source: Eurostat (2010).

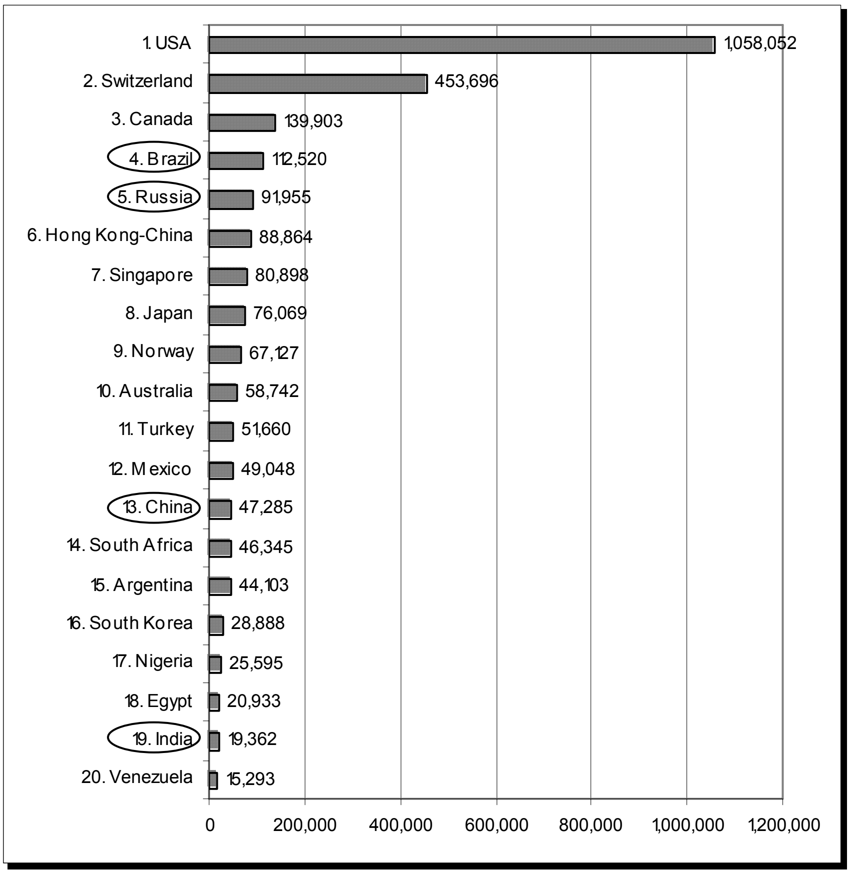
Figure 5. *EU FDI stocks in relation with the BRIC countries during 1997-2009 (in million Euro)*



Source: Eurostat (2010).

Figure 6. *The first 20 economies taking into consideration their shares in the EU inward FDI stocks in 2008 (in million Euro)*

The share of the BRIC group in the FDI stocks received by the EU from outside the Union increased by around 3 percentage points during the period 2004-2008, from less than 1% to 3.8%. The share of Brazil increased from 0.2% in 2004 to 1.7% in 2008, that of China from 0.1% to 0.6%, that of India from 0.04% to 0.3%, and that of Russia, from 0.3% to 1.2%. The share of Hong Kong-China remained relatively constant, at the level of 0.8%. As regards the FDI stocks generated by the EU, in the period 2004-2008, it is noticed that Brazil maintained its share at around 3.5% of the extra-community total, China increased its share from 1% to 1.5%, in parallel with the decrease of the share held by Hong Kong-China from 4.3% to 2.7%, a low increase of India's share from 0.4% to 0.6%, in contrast with the high increase of Russia's share, from 1% to 2.9%.



Source: Eurostat (2010).

Figure 7. *The first 20 economies taking into consideration their shares in the EU outward FDI stocks in 2008 (in million Euro)*

From the BRIC countries, Brazil and Russia had the most spectacular growth trend in the years '2000, both in terms of the FDI inward and outward stocks in relation with the EU.

Taking into account the results of the surveys recently carried out among the TNC managers as regards the capacity of the BRIC countries to attract and generate FDI, the investment flows between the EU and BRIC countries shall intensify in the years to come. BRIC is already placed on the investors' favourite destination map. In the hierarchy of the most „promising" host-countries for FDI, China keeps the first position, being followed by India (which wins thus one position as compared to the previous survey), Brazil on the 3rd (higher by one position), the USA on the 4th (lower by two positions), followed by Russia on the 5th position. At the same time, BRIC countries become important FDI sources globally. According to the capacity of these countries to generate FDI, China is placed by the experts on the 2nd position, India on the 6th, and Russia on the 9th (UNCTAD, 2009b and 2010b).

The next section will focus on considering the main determinants of the trade and investment flows between the EU and the BRIC countries and those which explain the still low shares of the BRIC countries in the EU FDI.

2. Determinants of trade and investment flows between the EU and BRIC countries

The development of the trade and investment flows between the EU and BRIC countries is determined by multiple exogenous and endogenous factors.

From the recent exogenous determinants, we mention the world financial and economic crisis which generated many "chain" effects on the international trade and investments and, in particular, on the bilateral exchanges between the EU and BRIC. First, after the historical maximum figure of the international trade flows from 2008, the global demand diminished in 2009, due to the recession recorded in the developed countries and the slowing down rate of the economic growth in the emerging countries. The demand decrease generated, at its turn, the reduction of the prices for raw materials. After the highest increase in the last century of the commodity prices recorded in the period 2003-2008 (UN, 2010), the prices decreased starting from November 2008 for all the raw materials due to the global financial and economic crisis and excessive supply. Hence, on the other hand, the decrease of the prices for raw materials contributed to the reduction of inflation pressures, decrease of transport and other costs, with direct effects upon the consumers' real income. Therefore, the effects of the world financial and economic crisis have been partly moderated by the reduction of the prices for raw materials in the commodity importer countries.

Second, the funding of exports and imports became more and more restricted. The experts consider that over 90% of the trade transactions involve a loan form (mainly on the short term), insurance or warranty (WTO, 2008). On the other hand, the funding of trade deficits was also more difficult and expensive, in the context of the uncertain environment on the financial markets. Third, the private investments, especially those in search of efficiency, with high contribution to export, have been restrained.

In the field of FDI, the situation is similar to that in the international trade, but the sharp decline of the global investment flows was recorded one year earlier, in 2008. Both the investments and the international trade had recorded a sharp decrease in 2001, but slighter than that of 2008-2009 and having as main determinant the slowing-down of the economic growth rate in most of the developed countries and the crisis of the IT and communication sector (the so-called „dot.com" crisis), exacerbated by the uncertainty established after the terrorist attacks in the USA from September 11, 2001.

As regards the endogenous elements, we mention three of them: the economic complementary elements between the EU and BRIC countries, their international specialization and their different competitive advantages, the historical affinities and the tradition of the relationships among various economies (we can mention here the trade and investment relationships between Brazil and Portugal, for example) and, in close relation with the two elements mentioned above, the FDI geographical distribution. For instance, the economic complementarities between the EU and BRIC are directly reflected in the bilateral trade structure (Table 5). A detailed analysis of the trade per country for product sub-groups would make even more obvious the inter-relations between the EU and the BRIC countries, but the dimensions of this paper are not appropriate to consider such an analysis.

Table 5

Comparative presentation of the trade in goods between the EU and BRIC, with the outlining of the categories having a share > 10% at export/import (in %)

Trade flow	Brazil		Russia		India		China	
	SITC	%	SITC	%	SITC	%	SITC	%
Export	Machinery and transport equipment	**47.7**	Machinery and transport equipment	**42.9**	Machinery and transport equipment	**43.8**	Machinery and transport equipment	**58.1**
	Chemicals	**22.0**	Chemicals	**16.7**	Miscellaneous manufactured articles. classified mainly by material	**27.7**	Chemicals	**11.7**
	Miscellaneous manufactured articles. classified mainly by material	**11.4**	Miscellaneous manufactured articles	**13.1**	Chemicals	**10.0**	Miscellaneous manufactured articles. classified mainly by material	**11.1**
	-	**-**	Miscellaneous manufactured articles. classified mainly by material	**11.1**	-	**-**	-	**-**
Import	Non-agricultural commodities. minus fuels	**29.6**	Fuels	**73.8**	Miscellaneous manufactured articles	**27.6**	Machinery and transport equipment	**47.5**
	Agricultural products	**29.1**	-	**-**	Miscellaneous manufactured articles. classified mainly by material	**21.5**	Miscellaneous manufactured articles	**33.9**
	Machinery and transport equipment	**11.5**	-	**-**	Machinery and transport equipment	**20.2**	Miscellaneous manufactured articles. classified mainly by material	**21.2**
	-	**-**	-	**-**	Chemicals	**10.4**	-	**-**

Source: DG Trade (2010).

Going to the FDI specific elements, the shares of the BRIC countries in the extra-community FDI flows and stocks remain at low levels. This paradox is explained by the TNC reasons to invest abroad. In the theory of FDI, the investments are classified, according to their objective, in: investments in search for resources, market, effectiveness and strategic assets or increase of competitiveness.

Let’s take for instance the case of FDI in search for resources, at the level of TNC from BRIC countries. They aim, of course, mainly to locations from Africa, Asia or Latin America, where such resources are abundant. As regards FDI looking for effectiveness and strategic assets, the EU, and other developed economies would be the ideal destination, but the EU-27 countries impose a series of access restrictions to the domestic market, most in infrastructure field – electricity, transport, telecommunications – but also in the financial sector. In some EU member states, such as Germany, Great Britain or France, there is a strict legal framework, according to which the investors’ access to such sectors considered strategic from the point of view of the national security and safety is blocked – similar situation as in the USA and Japan. Taking into account that most of the investors from BRIC countries (mainly from China and Russia) are state-owned companies, which ensured monopoly position on the domestic market, one of the arguments of the EU for the restrictions imposed to the access to the internal market is also the non-distortion of competition. Nevertheless, recent studies (Hunya, Stölliger, 2009) highlight the fact that FDI from BRIC countries in the EU are concentrated in predominant proportion in the service sector, while community FDI in BRIC countries are in proportion of 1/3 in the processing industry and 2/3 in the services sector. Anyway, the recent provisions of the EU investment policy („investment-related package”) for FDI liberalization can actuate the bilateral investment flows.

At the same time, the share of the developed countries in the FDI flows and stocks generated by the EU remains large, despite a high efficiency rate of the investments in the BRIC countries, even above the average recorded in the new member states of EU (NMS). The explanation is the attractiveness of the developed countries in terms of macroeconomic stability, infrastructure and strict legislation in the field of intellectual property rights and also the high prices of assets and the long-standing history of FDI among the developed countries (Hunya, Stölliger, 2009).

As regards the reasons of the EU to invest in the BRIC countries, it must be underlined the fact that, together with the decrease of the attractiveness degree of such destinations in terms of costs, that given by the local market size and purchasing power increases (Hunya, Stölliger, 2009). And if we take into account also the role of the EU in the innovation and modernization process of the BRIC economies, we may assert that the inter-relations between the EU and the BRIC in the field of FDI will even deepen on the long term.

Besides the elements mentioned above, we would like to highlight another one. Currently, the EU is the main investor in Brazil and Russia, while Mauritius is the major investor in India, and Hong Kong-China the most relevant investor in China. Cyprus appears in the official statistics of the Russian Federation as one of the most important foreign investors. The FDI flows that reach China through Hong Kong-China (actually, recording a declining trend due to the increasing attractivity of China) or those entering Russia through Cyprus or India through Mauritius reflect the *capital migration* process explained by the investors' reasons to avoid fees and taxes. Nevertheless, due to the implementation of stricter transparency standards, pursuant to the world financial and economic crisis, the attractivity degree of fiscal paradises declines, in favour of other countries such as BRIC.

3. Perspectives of trade and investment flows between the EU and BRIC countries through the lens of the strategic bilateral relationships

Although the market role is without doubt the main determinant of the international trade and investment flows, the public institutions and the formal rules, the informal norms and their constraint power are those which determine the „game's rules".[7] Our arguments in this section begin with the delineation of the bilateral legal framework between the EU and the BRIC countries.

Brazil, the strategic partner of the EU from Latin America

EU and Brazil established diplomatic relationships in 1960, and since then the cultural, economic and political relationships between the two parties permanently developed. The enhancement of the dialogue with the largest Latin American economy is considered by the European Commission (EC) one of the ways for re-starting the negotiations related to the EU-Mercosur association Agreement. The EU has not in view a new separate agreement with Brazil, therefore it considers the strategic nature of the bilateral relationships as an „engine" of the inter-regional cooperation. Brazil is for the EU the largest market in Latin America – both as import source and export destination. Brazil concentrates 35% of the total trade (export+import) between the EU and Latin America, being followed by Mexico (19%) and Argentina (almost 10%).

The bilateral high level summits are at their turn a way to strengthen the bilateral relationship. On July 14, 2010 the fourth bilateral summit took place in Brazil's capital, a particular emphasis being put on the requirement of accelerating the negotiations for the conclusion of the EU-Mercosur association Agreement. The negotiations for this Agreement, suspended in 2004, were re-launched last year on the occasion of the EU-Mercosur bilateral summit from Madrid (May 17, 2010), and the first round of negotiations took place during June 29 – July 2, 2010, after a six-year hiatus.

Analysing the evolution and current level of the trade and investment exchanges between EU and Brazil, it must be noticed their high potential. Taking into account the high protectionism level of the Brazilian goods and services markets, and the existent barriers in the local business environment, the negotiations should continue both in the Doha Round and at EU-Mercosur and bilateral levels, in view of reducing the tariff and non-tariff import barriers existent in Brazil and improving the local business environment. This shall also facilitate the reduction of the actual EU trade deficit with Brazil. The EU-Brazil business summit is also an important way to strengthen the long term bilateral trade and investment relationships.

Russia, strategic partner of the EU, despite the bilateral divergences

After the Iron Curtain has fallen, within the new bilateral relationships delineated at economic and political level, we remark the consolidation of the cooperation between the EU and the Russian Federation. Although the tensions between the two parties are still present, and they continue to be intensely evident in the energy and geo-political fields, nevertheless the convergent common interests are prevalent.

The EU and its strategic partner, the Russian Federation, have cooperation relationships based on complementarity. While the EU aims, among others, at the Russian natural resources (upon which is still highly dependent) and the Russian market, Russia needs the European capital and technologies, the internal market and the EU support for joining the WTO.

Between December 1, 1997 and December 1, 2007 the bilateral relationships were guided by the Partnership and Cooperation Agreement, acting in the political, economic and cultural sectors. In view of enhancing the bilateral cooperation, the EU and Russia decided, within the session of May 2003 from Sankt Petersburg to establish four common spaces: economic, of freedom, security and justice, of foreign security and of research, education and culture. Within the summit of May 2005 from Moscow, there were outlined the road maps for the four common spaces, the EC drafting every year a progress report concerning the cooperation in these spaces.

After the expiry of the Agreement in 2007, this was automatically extended. In 2008, two sessions took place which significantly influenced the process of concluding a new Agreement: the summit from the Siberian city Khanty-Mansiysk, carried out on June 26-27, 2008 (the 21st) and that from Nice on November 14 (the 22nd). At the 21st summit it was decided, after one year and a half of exploratory period, to *start the negotiations in view of concluding a new Partnership Agreement with the Russian Federation*, which had to replace the Partnership and Cooperation Agreement of 1997, taking into account the major changes occurred both at global level, and regional and local level as well. Despite some objections, the 22nd summit led to *unblocking the negotiation process* of the Agreement, process in a deadlock after the Russian-Georgian conflict of August 2008. Between July 2008 and May 2010, nine rounds of negotiations took place for the new Agreement.

The completion of the negotiations aiming at concluding a new Agreement, together with the materializing the four Common Economic Spaces and implementing the Partnership for Modernization, started at the 25th bilateral summit (of May 31- June 1, 2010, from Rostov on Don) contribute to the strengthening of the relationships between EU and Russia and enhancing the trade and investment exchanges between the two parties.

Strategic partnership EU-India, hardly developed until now

The cooperation relationship between the EU and India originated in the ’60s. The first Framework Agreement between the two parties was signed in 1973, and was followed by a new and more comprehensive Agreement in 1981 – the Trade and economic cooperation agreement. The development of the bilateral relationship between the EU and India led to the conclusion of a new Cooperation agreement in 1994, much more comprehensive than the previous ones, opening the way for an ample political dialogue.

In 2000 the first bilateral summit took place in Lisbon, being followed by other ten summits at high level, the 11th being held on December 10, 2010 in Brussels. A particular relevance had the high level summit of 2005 (New Delhi), when the first common action plan was concluded. It provides, among others, to establish a high level group in trade, in order to analyze the ways of deepening and enlarging the bilateral trade and investment relationships.

The common action plan was reviewed at the summit of 2008 from Marseille. It was also enacted a common Work program concerning the climate changes. As integral part of the Strategy „Global Europe”, started by the European Commission in 2006 and pursuant to the feasibility studies concerning the opportunity of enacting a bilateral Free trade agreement and to the report from 2006 of the high level working group on trade, the two parties agreed to start the negotiations for concluding such an Agreement. From June

2007 until April 2010 nine negotiation rounds took place. Anyway, the negotiations are difficult as India might lose at several levels following the completion of the Agreement: reduction of the collections from custom duties, possible deepening of the trade deficit, risks induced by the liberalization of the financial services, restriction of the control over the capital, granting the national treatment to the European investors etc.

Instead, for the EU, the conclusion of such an Agreement might generate a series of benefits: diminishing of the protection level imposed by India to the imports from the EU, enhancement of the investment flows and bilateral trade exchanges.

In the science and technology field, the cooperation relationship between the EU and India are strong. On November 23, 2001, the two parties signed a bilateral Cooperation agreement in this sector. Based on this, the EU and India cooperate within the seventh Framework Program (FP7) for technological research and development 2007-2013. At present, there is also a bilateral Cooperation agreement in the research field for obtaining energy by nuclear fusion, [(8)] and the two parties are considering also the conclusion of a Research and development agreement in the field of nuclear energy usage for peaceful purpose. [(9)]

Nevertheless, despite the bilateral efforts to strengthen the cooperation at all levels, among the EU relationships with its strategic partners (the USA, Canada, Japan, Russia, China, India, Brazil and Mexico), that with India is the least developed, fact highlighted also by the low level of the bilateral trade and investment flows.

At their turn, the USA, after the end of the „American unipolar moment”[(10)], oriented more and more to identify allies in the terrorist fight and, according to the deepening of its current account and budget deficit, allies available to finance this “twin” deficit. Therefore, the strategic and economic dialogue with China was started in 2006. The same year, when it became obvious that it is not possible to establish the Free Trade Area of the Americas, the Commercial dialogue with Brazil was initiated. And in 2010, the inaugural Strategic dialogue USA-India took place. The relationships with Russia, instead, continue to remain at the experimental level, even after the conclusion of a new treaty for the reduction of strategic weapons, START-2. A historical reminiscence, the lack of a trust environment is felt also in the relationships between Japan and China, despite a high dynamic of the bilateral trade and investment exchanges.

EU and China, „closer partners, increasing responsibilities"

China and the EU set bilateral official relationships in 1975, and in 1978 signed the first Commercial agreement between the two parties. In order to reflect the gradual development of the bilateral relationships, the Agreement from 1978 was replaced in 1985 by the EU-China Trade and Cooperation Agreement. In 1980, China was included on the list of the countries benefiting from community scheme of the generalized, non-reciprocal and non-discriminatory system of preferences in favour of the developing countries (GSP).

In 1995, the EC defined in the Communication „A long term policy for the relationships between China and Europe" its first Strategy concerning the bilateral economic relationship. This was followed in 1998 by the Communication related to „Building a comprehensive partnership with China", which virtually initiated a new stage of the bilateral relationship, designated also by the first EU-China summit carried out in London the same year.

In 2003, the strategic partnership between the two parties was initiated, and the Chinese government made public in October 2003 „China's policy document in the relationships with the EU", emphasizing the objectives of the Chinese policy towards the EU, the cooperation fields and the five-year cooperation framework.

On October 24, 2006 EC published the Communication „EU-China: closer partners, increasing responsibilities", and, in parallel with this, the working document concerning the bilateral trade and investments, named „Competition and partnership", which analyzes the trade exchanges between the EU and China and their expectations, starting from the political and economic strategies and the policy in the field of competition and cooperation.

On April 25, 2008 the EU and China started in Beijing the bilateral dialogue mechanism at high level on economic and trade topics. Until that date, over 20 sectoral dialogues on economic topics had been recorded between the EU and China[(11)], most of them started 2-3 years before, the new mechanism being complementary to these. The requirement of enhancing the dialogue and cooperation between the EU and China occurred from both the benefits of developing the existing bilateral complementarities, and the interest shown by China for „the European model" in certain fields, and also from the need to settle certain discrepancies in an amicable way.

The mechanism aims at enlarging and deepening the cooperation between China and the EU on economic and trade matters. The main action fields are: the multilateral trade system, the strategic matters in relation to the bilateral trade, investments, innovation (including the intellectual property rights) and the bilateral technology and economic cooperation (including energy, sustainable development, transport, legislation). At the inaugural session, a working plan and an activity schedule were decided.

The decision to start the high level mechanism was made during the 10th EU-China summit, which took place in Beijing on November 28, 2007. The initiative belongs to China, the main objective of this mechanism being the reduction of bilateral trade imbalances.

The last high level summit between the two parties, the 13th, took place on October 6, 2010 in Brussels. On the occasion of celebrating 35 years since the agreement of the bilateral diplomatic relationships was set, the EU and China expressed their commitment to open a new stage of the bilateral relationships, where the recently defined opportunities at regional and global level (including those provided by the Treaty from Lisbon) are to be used in the mutual benefit of the two parties.

EU-China, a second G-2?

The ascent of the Chinese economy during the last decades, after its integration into the world economy pursuant to the reforms of Deng Xiaoping, re-modelled the economic and political relationships between China and the rest of the world. Strategic partner of both the USA and the EU, China is considered by them both an opportunity and a threat.

China records a significant trade surplus both in the relationships with the USA, and with the EU. In general, during the world recession, the global imbalances diminished: the trade deficits of the USA and the EU decreased, the surpluses of China and Japan diminished, while the oil price was lower. Anyway, it is improbable that these trends remain on the long term. The recent reduction of China's trade surplus is determined by the contraction of the global demand and the national economic stimulus package, with impact on the domestic demand, rather than by structural changes.

Two elements might have a strong impact upon the Chinese trade balance: on the one hand, the revaluation of the national currency, renminbi (RMB or yuan), which would increase the attractivity degree of the domestic market for the Chinese producers (which is equivalent to exports moderation); on the other hand, the reduction of the propensity to save of the households and companies, which would contribute to increase the domestic demand (which means imports increase as well). But, both the RMB revaluation and the domestic consumption increase are long term processes.

The USA, and also the EU hold China responsible for maintaining the national currency, RMB, at an undervalued foreign exchange rate, in order to encourage exports or, conversely, to slow down imports. As regards the foreign exchange rate of RMB, the Chinese government, conceding to the external pressures, resorted to the appreciation of the RMB by 21% against the Dollar between July 2005 and July 2008, but the next period maintained the foreign exchange rate to 6.83 RMB for one Dollar. The ascending trend of China's foreign currency reserves, which exceeded the threshold of USD 2,000 billion in April 2009, and since that time increased at a high rate, show the government policy to „bridle" the national currency foreign exchange rate, but it is also the natural consequence of the balance of payments surpluses. For instance, the surplus of the balance of trade in goods increased during the recent years until it reached the record level of USD 296 billion in 2008 (WTO, 2009).

In the opinion of the World Bank experts, a stronger yuan would ease the inflation pressures, by reducing the prices of the imported products and would also impact on the economic growth model, by inclining the balance in favour of services and consumption and tempering the investments and industry development. There are still many experts (among them, the Nobel Prize laureate in economics, Robert A. Mundell) who consider that a free floating foreign exchange rate of yuan could erode not only the steadiness of the Chinese economy, but also the global one.

In their turn, Chinese experts find other explanations for the Chinese trade surplus. They highlight that the EU and the USA weapon embargo over exports to China, in effect for over 20 years, is an impediment to exports increase on the Chinese market (by restricting the export of double-usage technologies, civil and military).

The USA and the EU equally deny granting the market economy status to the world biggest emerging power, invoking among other reasons the excessive state involvement in economy and non-observance of the human rights.

While China became in 2008 the main funder of the USA public debt, holding 20% of the American treasury securities – in other words, China effectively finances the USA current account deficit – starting with 2011 the Beijing government intends to acquire massive government bonds originating from the Euro Zone.

China intends to become an innovation-oriented nation until 2020 and world leader in science and technology until 2050. Therefore, the cooperation between China and the developed countries (mainly the USA and the EU) – world leaders in innovation and high technology products and services are the key factor for the implementation of the national modernization and innovation strategies.

These are just a few arguments in sustaining the idea that the USA-China and EU-China partnerships are based on similar strategic considerations, so we can already talk about G-2' and G-2''.

BRIC countries: main investors in the EU in a few decades?

The sustained economic growth rates and the increase of the commodity prices between 2003 and 2008, and the investment liberalization in most of the host-countries led to an unprecedented expansion of the FDI flows generated by BRIC countries. The value of these cumulated outflows reached a historical maximum figure of USD 147 billion in 2008, representing around 9% of the world flows, as compared to less than 1% a decade ago. Although the FDI flows generated by BRIC decreased in 2009, pursuant to the world financial and economic crisis, the share of the BRIC countries in the global FDI flows, both generated and received, continued to increase. More than that, TNCs from the four countries were again remarkably proactive investors in 2010.

In the early ’80s, two new framework-concepts crystallized in the FDI theory. One is that developed by Alan Rugman: matrix *firm specific advantages – country specific advantages* (FSA-CSA) at the TNC level (Rugman, 1981). He underlines that, on the one hand, one of the company’s motivations for going abroad is the turning to account its FSA. The company specific benefits mean the company’s property, *id est*: technologies, knowledge, managerial or marketing abilities etc. On the other hand, the second reason is given by the host-country specific benefits, for instance: natural resources, the quality and size of the labour force, cultural factors, tariff and non-tariff barriers, public policies etc. But this matrix has been shaded by the other framework concept, which has dominated the FDI theory for over 30 years and was initiated by John Dunning: the „eclectic” paradigm of the international output OLI – ownership, location and internalization (Dunning, 1981). According to this paradigm, FDI are motivated by three advantages of: ownership, location and internalization. Between the matrix FSA-CSA and the paradigm OLI there is the following correspondence: FSA=O, and CSA=L, I being in fact the mechanism of tracing the borders of the TNC, based on the company specific advantages and the host-country specific benefits.

Based on this, the FDI typology was gradually defined, having as correspondent four major reasons for TNCs to internationalize through FDI: investments in search of resources (natural or cheap and/or highly qualified labour force), investments looking for markets (and for avoiding the trade barriers on those markets), investments searching for effectiveness and investments looking for strategic assets (or *created*, which is the main source of the companies’ competitiveness and belong to the knowledge economy and creative economy) (Dunning, 1993, UNCTAD, 1998, pp. 184-189, OECD, 2002, pp. 39-41). As a matter of fact, starting from the ’90s, the interest of the economists concentrated more and more on the companies’ competitiveness (Porter, 1990).

In contrast with the previous period, when starting with Dunning (1958), the studies focused on the FDI analysis at the level of the developed economies, the last decade was characterized by an afflux of analyses focussing on FDI attracted from and originating in the emerging economies (Mathews, 2002, 2006, Buckley, 2010). Even the theoretical discourse highlights conceptual frameworks specific to this group of economies (Mathews, 2002, 2006). John A. Mathews proposes a complementary model to the paradigm OLI, adapted to the level of TNCs from the emerging economies: LLL (linkage, leverage and learning). Mathews (2006d) underlines the following aspect: the fact that TNCs from the emerging economies are the new entrants on the international markets may be, at the same time, a benefit, by the access to advanced technology (by imitation) and based on this, the reduction of property gaps against TNCs in the developed countries. As a matter of fact, this approach is similar to „the evolutionist process" described by Lall (2000) and based on „the technological learning" (Nelson, 2004). Dunning et al. (2008) recognized that emerging TNCs are short of the „O" component (ownership or property benefits), but this doesn't mean that such benefits are absent. While TNCs in the developed countries make use of FSA based on assets, such as technologies, brands and other intellectual property rights, TNCs from the emerging economies resort to networks, contacts and organization structure (UNCTAD, 2006).

FDI generated by BRIC have been stimulated by the increase of over the border mergers and acquisitions, despite the interruption episodes of such transactions, situation similar to that of the developed countries. During the period 2000-2009, the Indian companies concluded 812 merger and acquisition agreements abroad, while the Chinese ones concluded 450, the Russian 436 and the Brazilian 190. Some transactions of this kind exceeded USD 1 billion (UNCTAD, 2010a).

In the ranking of the first 100 non-financial TNC, according to the value of the assets held abroad (at the level of 2008, at global level) there are only seven TNC from emerging economies – of which two from China (CITIC Group, 48th position and China Ocean Shipping Group Company, 80th position), one from Hong Kong-China, one from Malaysia, one from Mexico and two from South Korea (UNCTAD, 2010a). Instead, in the hierarchy of the main 100 non-financial TNC from the emerging economies at the level of 2008, 16 are from Hong Kong-China (from various fields), 13 from Taiwan-China (from various fields), 13 from China (from various fields), eight from Russia (of which one in oil and natural gas sector, five in metallurgical industry, and two in telecommunications), five from India (from various fields), three from Brazil (from fields related to natural resource exploitation and processing).

TNCs from BRIC countries have a series of common features:

- They created asset portfolios in various locations, as a source for increasing their competitiveness both on the domestic and foreign markets;
- In the first stage, TNCs from BRIC countries extended most at regional level, often in host-countries with cultural affinities with the origin country. Subsequently, looking for new markets and resources, the expansion was achieved at global level. For instance, if at mid ’90s, India’s FDI stocks in emerging economies outside Asia held a share of only 25% of total, in 2008, this share reached 61%. This kind of expansion seems to be preferred by most of the companies which are at the beginning of the internationalization process, if we take into account the Scandinavian models Uppsala and POM(12);
- Many TNCs from BRIC countries became global players, because they hold, among others, global brands, managerial abilities and competitive business models. We mention here, for exemplification: CITIC and COSCO (China), Lukoil and Gazprom (Russia), Vale SA (Brazil), Tata and ONGC Videsh (India);
- The most of the TNCs from BRIC are motivated by strategic reasons, rather than by the short term profitability, which reflects the role played by the state-owned companies in these countries. Most of the Chinese TNC are state-owned companies, but many TNC from Brazil, Russia and India are under the state supervision too (for example, Petrobras, Gazprom, ONGC Videsh).

The government policies of BRIC countries in the FDI field sustained the increase of the generated flows and, also, the implementation of these policies is facilitated by the substantial foreign exchange reserves held by China, Russia, Brazil and India.

The most relevant example is that of China, which we shall discuss hereinafter. During the last years, the Chinese policy „go out” (or „going global” strategy), started in the late ’90s by the State Council (central government), drew more and more the attention of the international economists. From the favourite destination of the FDI flows, China started to delineate more evidently its position of FDI generating country. According to UNCTAD data, the FDI annual average flows generated by China increased from USD 0.4 billion in the ’80s, to USD 2.3 billion in the ’90s, exceeding USD 43 billion in 2009. In 2009, despite the reduction of FDI at world level, the Chinese FDI flows from the non-financial sectors increased by 6.5% as compared to 2008, reaching USD 43.3 billion (Ding, 2010).

In the opinion of the specialists from the Ministry of Trade from China, the Chinese FDI abroad are estimated at USD 60 billion in 2010, based on the government policy and expansion plans of the Chinese companies. China holds around 30% of the world foreign currency reserves, and part of them may be used for acquiring assets whose value decreased pursuant to the world financial and economic crisis.

The surveys recently carried out by UNCTAD show that many investment promotion agencies place China on the first positions in the potential range of the global investors, and some of them, headquartered in countries such as Denmark, Sweden or Great Britain, have already opened offices in China.

Among the major reasons of the Chinese companies for investing abroad is the access to natural resources. Most of the investment projects abroad are resource-oriented and benefit from the support of the Chinese government. But there are still many projects aiming at the access to technologies and opening research-development-innovation centres in key locations (for example, Huawei Technologies and ZTE Corporation in Sweden, Haier in Germany) and the access to well-known brands (acquiring by Lenovo Group Ltd. of the IBM PC Company Division).

At this point of the exposure, we should make a brief digression. Gradually, as BRIC countries move from the factor driven (India) or efficiency driven stage of development (China, Russia and Brazil) to the stage of development based on innovation (which is the case for the most of the EU member countries), the interaction between the EU and BRIC deepens. The cooperation of BRIC countries with the EU (and other developed economies) is the key for the implementation of their national modernization and innovation strategies (Oehler-Şincai et al., 2010, pp. 8-11). And, along with their turning into „intelligent”, economies based on innovation and new technologies, certain major matters can be settled, such as environment degradation, dramatic social imbalances and regional development gaps.

As regards the legislation recently adopted in China for the regulation of the Chinese FDI, this includes new measures for the administration of the investments abroad (Ministry of Trade, March 16, 2009) and provisions concerning the foreign currency supervision of the FDI operations (State Administration for Foreign Exchange from China, July 13, 2009). According to the new regulations, the required procedures for FDI accomplishment have been even more simplified.(13) The new measures stipulate for the first time that the Chinese companies should observe the laws and regulations of the host countries and assume social responsibilities – the companies’ code of conduct abroad. But, despite the measures taken by the Chinese authorities for speeding-up the investments abroad and the expansion of the FDI outflows, these are obviously exceeded by the FDI inflows. This is due to the different growth rates of the two categories of FDI flows, the received flows increasing much rapidly than the generated ones, and from a higher base (Figure 8).

For China, the spread between the received flows and the generated flows reached in 2007 the maximum figure of the period 1990-2009 (USD 61 billion). Relatively, in India, the maximum spread between the two flows was recorded in 2008, but at a much lower level than in China (around USD 22 billion).

Brazil, India and Russian Federation as well intend to generate global players, by incentives (to establish „national champions” in Russia and Brazil or to continue to liberalize the foreign currency system in India).

For example, in Brazil, the situation of the FDI outflows has been deeply influenced by the restructurings at regional level. The liberalization of the economies from Latin America in the ’90s constrained the Latin American companies to modernize themselves in order to become competitive against the external competition. The local companies had two alternatives available: to go bankrupt or to consolidate. The surviving ones internationalized themselves in order to extend their markets, reduce costs and improve risk profile. More than that, the privatization process (in Brazil and Mexico) promoted the establishment of national „champions”, who, subsequently, turned into big TNCs. In Brazil, the process of privatization and reforms aimed mainly to generate large, restructured and specialized companies (such as Vale, Embraer or Petrobras).

The National Development Bank of Brazil (BNDES) played an active role in consolidating the national companies and, more recently, in deepening their internationalization process. BNDES started to support intensively the national companies by credit lines from 1994, and in 2002 even set up a special credit line for the expansion abroad of the Brazilian companies. In 2009, BNDES granted loans amounting to USD 8 billion for supporting the Brazilian TNC in the fields of agriculture, capital goods, constructions, technical engineering, electronic products, energy, technical services, IT and communications. Nevertheless, the international experts consider that the access of the Brazilian companies to financial resources is still restricted, and most of the entrepreneurs have to use their own resources or rely on foreign funding (UNCTAD, 2010a, p. 49).

The world financial and economic crisis strongly affected the Brazilian TNCs. The intra-company loans (granted by the subsidiaries from abroad to the Brazilian parent-companies) reached in 2009 an unprecedented net value, of USD 14.6 billion, in order to cope with the financial difficulties. The specialists consider that one of the major barriers on the way of deepening the internationalization of the Brazilian TNC is the insufficient access to loans. Anyway, the negative elements are counter-balanced by the following elements:

- Latin America is the main market for the Brazilian TNCs, and the region was less affected by the world financial and economic crisis than the rest of the world;

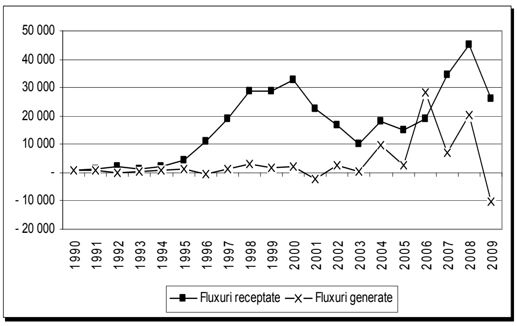
- The Brazilian TNCs are less present in industries sensitive at business cycles, being, instead, active in industries "resilient" to crisis, benefiting from a steady demand (such as: agriculture, telecommunications) (UNCTAD, 2010a, p. 49).

In 2006, the Brazilian FDI outflows exceeded the inflows by USD 9.3 billion, but this was the only episode from the period 1990-2009, when Brazil was a net generator of FDI flows.

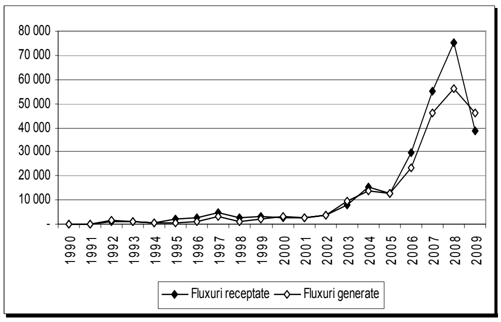
Instead, in case of Russia, during the period 1990-2009 five such situations were recorded, when Russia was a net generator of FDI flows (1992, 2000, 2002, 2003 and 2009). The spread between the outflows and inflows was significant in 2009 (USD 7.3 billion).

It must be underlined that the Russian FDI flows are mainly oriented to the acquirement of strategic assets in the developed countries, in activities from the downstream energy field (UNCTAD, 2010a, p. 51).

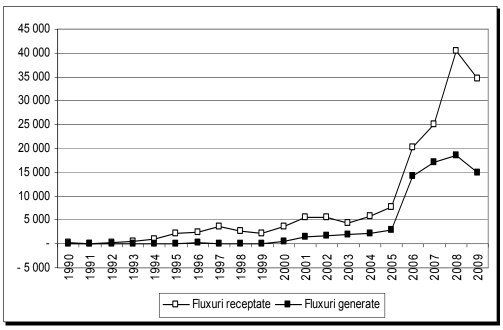
Brazil



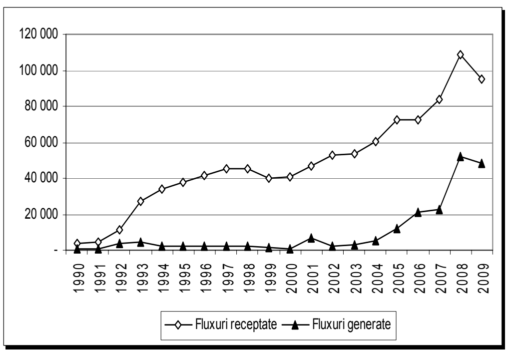
Russia



India



China



Notice: Fluxuri receptate=FDI inflows; fluxuri generate=FDI outflows.
Source: UNCTAD (2010a).

Figure 8. *Evolution of the FDI inflows and outflows of the BRIC countries during 1990-2009 (in million dollar)*

The aforementioned data emphasize the high dynamic of the FDI flows to and from BRIC countries, China being undoubtedly the leader of the group, both as regards the inflows and the FDI inward stocks. But, as regards the FDI outflows China is closely followed by Russia, and as regards the outward stocks, Russia overruns China.

EU-27, as entity keeps the first position in the FDI received and generated flows and stocks at global level. Nevertheless, the shares of the EU in the international investment flows recorded a downward trend during the last years, contrary to the BRIC countries, whose shares in theses flows substantially increased. Taking also into account the fact that FDI is one of the major elements of the economic growth, by generating employment, optimizing the resource distribution, facilitating the technology transfer and encouraging trade, at community level it was felt the need to adopt new directions in the investment policy. Consequently, on July 7, 2010 the European Commission (EC) made the first step towards a global European policy of the international investments, including two initiatives: a strategic document and a regulation draft – the „investment-related package".

The strategic document called *Towards a global European policy of international investments* provides the way the new competences of the EU in the field of FDI may be used in order to encourage the competitiveness, trade, economic growth and the generation of new employment. The intelligent, sustainable and inclusive economic growth is exactly the objective of the strategy *Europe 2020.* In its turn, the regulation draft defines the transition directions regarding the bilateral investment agreements which the EU countries have concluded with other countries and territories outside the Union, before the Lisbon Treaty came into effect, providing legal reliability to the community and foreign investors, without affecting the Commission's capacity to negotiate new investment treaties. On the basis of the Lisbon Treaty, the FDI related competences are transferred from the member states to the EU, therefore, the investment policy shall be worked out and managed at community level, providing the EU with a stronger negotiation position and a better security of the investments for all the European companies.

While the member states focused before on the promotion and protection of all the investment forms, EC's main goal is the investment liberalization, based on the FDI market access. In order to cope with the global competition, the EU felt the need of a global European policy in investment field, to ensure a uniform treatment for the community investors, and a stronger negotiation power as well.

The strategic document and the regulation draft introduced by the CE are just the first steps on the way aiming at enacting a common policy in the international investments field. And one major element which led to enacting the „investment-related package" is the growing role of BRIC countries as regards FDI.

Taking into account the considerations included in this section and the previous ones, we estimate that the trade and investment exchanges between EU and BRIC countries shall increase in the next period, one of the critical elements in this process being the strategic nature of the bilateral relationships between EU and BRIC countries.

Conclusions

The EU-27, as entity, still keeps the first position, both in the world exports and imports of goods and services, and in the FDI flows and stocks received and generated at global level, taking into account the EU intra+extra flows. But, during the last years, the EU shares in the international trade and investment flows followed a downward trend, contrary to the BRIC countries, whose shares in these flows substantially increased. As regards the extra-community trade in goods, the EU exports are slightly exceeded by the cumulated exports of the four most powerful emerging economies at global level.

During the last decade, the shares of the BRICs in the extra-EU exports and imports of goods significantly increased, remarking especially the spectacular evolution of the shares held by China and Russia on the EU market, mainly at import. But, in parallel with these trends, it can be also noticed the deepening of the EU bilateral trade deficit, which at the level of the year 2009 was similar to that recorded by the USA in the relationships with BRIC group. Starting from this similarities between EU-BRIC and EU-USA and taking into account a series of other considerations, we outlined the relationships of G-2''against G-2'.

China was in 2009 the third major export market for the EU, Russia the fourth, India the eighth, and Brazil the 12th. In the same year, China was the main import source for the EU imports, Russia the third, Brazil the ninth, and India the tenth. The EU is the main trade partner of the BRIC countries, both in the field of exports and imports.

As regards the share held by the BRIC group in the EU trade in services, this is much lower, as compared to the respective share in trade in goods. But, contrary to the deficit of the EU-BRIC balance of trade in goods, the services balance recorded a surplus in 2009, with a positive value representing one quarter of EU surplus in the relationships with all its extra-community partners.

Therefore, the competitive benefits of the EU against BRIC are obvious in the services sector.

Also, this paper highlights the fact that, in comparison with the trade flows, the participation of the BRIC countries in the FDI flows of the EU is much lower. The core of these flows was during the whole period the group of EU-15, which succeeded to concentrate the major share of these. Taking into consideration the results of the surveys recently carried out among the TNC managers as regards the capacity of the BRIC countries to attract and generate FDI, we consider that the investment flows between the EU and the BRIC countries shall increase over the next years. And together with the movement of the BRIC countries from the development stage based on factors of production (India) or effectiveness-based economies (China, Russia and Brazil) to the stage of innovation-based economies, the interrelations between the EU and the BRIC shall deepen.

Beyond the unprecedented development of the economic and diplomatic relationships among the most powerful world emerging economies, the cooperation of the BRIC countries with the developed economies, mainly the EU, the USA and Japan, is the key for the implementation of the national modernization and innovation strategies. China intends to become an innovation-oriented nation until 2020 and world leader in science and technology until 2050. India aims to become a developed country before 2020. In its turn, the Russian Federation intends to become innovative and competitive at global level. Brazil, besides the ambitious strategies in energy and agriculture fields, has, in its turn, the target to accelerate the innovation process at national level. Therefore, the EU and other developed economies, world leaders in the field of innovation, high tech and services, have and will continue to have an essential role to play in the innovation process of the BRIC countries.

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Notes

(1) Initially, we intended to present the data for 2010 as well, but as of February 2011, these are still not available.

(2) Source: Official website of the Shanghai Cooperation Organization – quotation of the Brazilian Minister of Foreign Affairs, Celso Amorim, by Olga Kharolets.

(3) Taking into consideration the GDP at purchasing power parity (PPP), China has been on the 2nd position, after the USA, for almost a decade.

(4) See also the *National plan for long term development of science and technology 2006-2020* and the *National plan for long and medium term development of talents 2010-2020.*

(5) This analysis is considering only the extra-community trade flows.

(6) In 2009, the total extra-community trade in goods (export+import) amounted to Euro 2,295 billion, while the trade in services amounted to around Euro 896 billion.

(7) Therefore, this is the link between the theory of the international trade, the FDI theory and the new institutional economics.

(8) In 1985, the USA, EU, Russia and Japan launched the project ITER (International Thermonuclear Experimental Reactor, lat. „Cale"), having as the main goal the development of a new, clean and sustainable energy source, on the basis of the nuclear fusion. China and South Korea joined the group in 2003, and India in 2005. The ITER center is situated in Cadarache, in the South of France. The Agreement came into force on the 24th of October 2007, after having been ratified by all the partners.

(9) At present there is in force a cooperation Agreement between the USA and India, related to the use of nuclear power for civil usage.

(10) Authors like Charles Krauthammer consider the period between the fall of the Iron Curtain and the terrorist attacks from the 11.09.2001 as the *American Unipolar Moment*; afterwards, the world became multipolar.

(11) Agriculture, food security (sanitary and fito-sanitary matters), competition policy, trade policy, customs cooperation, textile trade, macroeconomic policy and regulation of the financial markets, industrial policy, regional policy, energy, environment, science and technology, cooperation in cosmic space, intellectual property rights, global satellite navigation services, sea transport, civilian aviation, consumers' protection, labour force and social business, informatic society, education and culture. In the political field, there are many dialogues about human rights, migration etc. In the tourism field, there is a new agreement on the agreed destination statute (http://ec.europa.eu/external_relations/china/intro/sect.htm).

(12) Uppsala Model is described in: Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977), Johanson and Vahlne (2009) etc. and the POM Model (product, operation, market) in: Luostarinen (1979), Luostarinen (1994) etc.

(13) For example, it was eliminated the procedure of examination of the foreign currency origin source used for FDI – the first step required by the prior legislation in the FDI approval process. The Ministry of Trade enlarges the action scope of its local branches for the approval of the FDI projects. Unless the „quick procedures" are applied, just a few types of investment projects are included in the compulsory action scope of the Ministry, among which: investments in countries which have no diplomatic relationships with China; investments in certain countries assigned by the Ministry and other authorities; projects exceeding USD 100 million; investments involving the interests of several countries or

regions. Instead, the local partners of the Ministry may agree investments: amounting between USD 10 and 100 million; in energy and mining sectors; those which require domestic promotion. According to the estimates of the Ministry based on the statistics of 2008, around 85% of the FDI abroad shall be further approved at local level. As regards the investment projects not exceeding USD 10 million and not being included in the compulsory incidence of the Ministry, the „quick procedure" may be applied. According to this, the approval certificate of FDI accomplishment is granted within three business days, and not 15 (the ordinary term). The FDI approval applications of the state-owned companies at central level are managed by the Ministry, and those of other applicants, by the local authorities.

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Abbreviations:

BRIC	Brazil, Russia, India and China
EC	European Commission
EU-27	European Union
EU-15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom (UK)
EU-12, the NMS	New Member States of the EU: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia
FDI	Foreign Direct Investment
G-2	Referring to the first meeting between the new USA president and his Chinese counterpart on the sidelines of the G-20 summit in London (April 2009) or, according to other authors, the bilateral Strategic and Economic Dialogue, launched in 2006. Generally, the analysts use this acronym to depict the special relationship between the USA and China.
G-7	The group of seven industrialized nations: Canada, France, Germany, Italy, Japan, UK, the United States of America (USA)
G-20	The Group of Twenty Finance Ministers and Central Bank Governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States of America, plus the EU, represented by the rotating Council presidency and the European Central Bank
GDP	Gross Domestic Product
ICT	Information and Communication Technologies
IMF	International Monetary Fund
PPP	Purchasing Power Parity
TNC	Transnational corporations, or multinational corporations or enterprises
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization