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FOREIGN DIRECT INVESTMENTS BETWEEN EUROPE AND BRICS COUNTRIES: AN ANALYSIS OF INVESTMENT POLICIES

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Abstract: This article explores the dynamics of Foreign Direct Investments (FDI) between Europe and BRICS countries, focusing on the economic, political, and regulatory factors shaping investment flows. The research highlights key trends in FDI, including the expansion of BRICS with new members such as the UAE, Iran, Ethiopia, and Egypt, and the impact this has on global investment patterns. Through a detailed analysis of policies, the study compares how BRICS and European countries approach FDI regulation, emphasizing the importance of bilateral agreements and the geopolitical implications of such investments. For instance, European nations have developed stringent screening mechanisms to protect national security, particularly from investments in critical sectors like technology and energy, while BRICS countries often adopt flexible but strategically protective policies to attract investments. Challenges like political instability, state capture, and the creation of monopolies are addressed, showcasing the risks to national sovereignty and local markets. Simultaneously, the paper identifies opportunities in areas like technology transfer, infrastructure development, and market expansion, demonstrating the potential for mutually beneficial partnerships. Through case studies and data from 2018-2022, the study provides actionable insights for policymakers and investors, emphasizing the need for adaptive strategies to mitigate risks and optimize investment
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1. Introduction

Foreign Direct Investments (FDI) have become a crucial and indispensable element in the global economic system, serving as a key driver for economic growth and significantly enhancing the connections between nations. FDIs come in various forms, including equity capital investments, reinvested earnings, and intra-company loans. However, in this article, we will focus on analyzing the overall volume of FDIs at a broad macroeconomic level, without breaking them down into specific types. FDIs are important not only for their direct economic impact but also because they can profoundly influence political, social, and cultural aspects, shaping government policies and legislative frameworks in ways that can either benefit or harm national interests.

In recent years, the topic of FDIs between Europe and the BRICS countries has gained much attention, especially with the upcoming expansion of BRICS on January 1, 2024. The inclusion of the United Arab Emirates, Iran, Ethiopia, and Egypt in the BRICS alliance represents a major change in the global economic landscape. Together, these new members had a combined GDP of USD 1.46 billion in 2023, which is almost equivalent to Spain's GDP that year, at USD 1.58 billion (the fourth country by GDP level in European Union after Germany, France and Italy). This significant expansion not only boosts the economic power of the BRICS group but also alters the dynamics of global investment flows, making the analysis of FDIs in this context even

more relevant and necessary. However, FDIs can also present considerable risks, particularly when there is no clear, regulated, and transparent investment policy in place to manage them. When an economy becomes too dependent on FDIs, the balance of power can shift, allowing foreign investors to have significant influence over local decision-making processes. This influence, often exerted indirectly, can lead to policies that favor foreign interests over those of the host nation. Such situations pose serious risks to national sovereignty and can result in local priorities being overshadowed by external interests, undermining the country's long-term goals. The risks associated with FDIs are further increased by issues such as state capture, where corruption and aggressive lobbying by multinational companies can undermine the integrity of governance, steering public policies to benefit external interests. This can distort the political and regulatory environment, making it increasingly difficult for local governments to maintain control over their economic policies and assert their authority. The erosion of national sovereignty becomes particularly clear when host countries are forced to follow strategic directions or political priorities set by foreign investors, often under the looming threat of reduced investment or capital withdrawal, which can have severe economic consequences.
Moreover, the influx of FDIs can also lead to significant market distortions, especially when these investments result in the creation of monopolies or oligopolies. This concentration of market power can stifle competition, putting local businesses at a disadvantage compared to large international corporations that have more resources, influence, and access to global markets. Over time, this can weaken the national economy, reduce market diversity, and ultimately hinder the long-term development and sustainability of the host country, potentially leading to economic instability and social unrest.

2. Literature review

Investment policies are an indispensable part of the economic machinery, as they influence how countries interact on the global stage, affecting capital flows, infrastructure development, and job creation. In this context, the BRICS countries and those in the European Union adopt different approaches, reflecting different economic and political priorities, largely due to the differing ideologies of the two organizations.
The investment policy of the BRICS countries is characterized by considerable flexibility and is often aimed at attracting foreign direct investments (FDI) in strategic sectors such as infrastructure, energy, technology, and manufacturing. These nations see FDIs as an essential tool for stimulating economic growth, creating jobs, and developing emerging industries. China and India, in particular, have developed investment policies that encourage public-private partnerships and investments in advanced technologies, while Russia focuses its efforts on attracting investments in natural resources and energy. Brazil and South Africa also promote investments in agriculture and mining to boost rural and industrial development. BRICS policies are often characterized by adaptability to the changing global context, but these countries may impose restrictions or strict requirements to protect local industries and maintain control over sensitive sectors. Additionally, BRICS investment policy often reflects internal political priorities and long-term economic strategies, which can create challenges for foreign investors in terms of regulatory transparency and predictability (UNCTAD, 2021).

The investment policy of the European Union is more coordinated and regulated at a supranational level, reflecting the common values and objectives of the member states. The EU promotes an open and transparent investment environment, focusing on stability and economic competitiveness. EU priorities include investments in high-value-added sectors such as green technology, innovation, digitalization, and financial services. The EU also places great importance on high standards of investor protection, along with strict regulations in the areas of environment and labor. In the context of bilateral investment treaties (BITs) that the EU concludes with countries outside the Union, EU legislation imposes a strict framework for these investments, emphasizing respect for high standards regarding human rights, transparency, and the rule of law. Foreign investors in the European Union thus benefit from a more predictable and stable regulatory environment, which reduces risks and offers a high level of legal protection. EU investment policies are also aimed at ensuring a functional and competitive internal market, while also protecting the Union's strategic interests through instruments such as the screening of foreign direct investments (European Commission, 2020).

Regulating foreign direct investments (FDI) from China in European Union countries involves several key legislative frameworks and regulations at both the EU and national levels. Starting with the EU Regulation on the Screening of Foreign Direct Investments (Regulation (EU) 2019/452), adopted in March 2019, the European Union established a comprehensive framework for monitoring and assessing foreign direct investments within its member states. This regulation empowers member states to scrutinize and, if necessary, block investments that are considered a threat to national security, particularly in critical infrastructure or sensitive technology sectors. For instance, Chinese investments in areas such as telecommunications, energy, and 5G technology have been subjected to rigorous review in certain member states due to security concerns (European Commission, 2019).

At the national level, Germany serves as a notable example with its National Foreign Investment Law (Außenwirtschaftsgesetz - AWG), which grants the government authority to review and potentially block foreign investments in sectors deemed sensitive. In 2018, this law was utilized to prevent the acquisition of Leifeld Metal Spinning by a Chinese entity on the grounds of national security (Federal Ministry for Economic Affairs and Energy, 2020). Similarly, France, through its Monetary and Financial Code, regulates foreign investments in strategic sectors and requires government approval for acquisitions in fields such as defense, energy, and telecommunications. In 2014, France expanded this list of protected sectors in response to growing Chinese interest in French companies, particularly in the energy sector (French Treasury, 2014).

Italy, through its "Golden Power Law," provides the government with the power to block or impose conditions on foreign investments in strategic industries, including defense, energy, and communications. In 2020, Italy invoked this law to prevent a Chinese company from acquiring a stake in the telecommunications firm Fastweb, citing national security concerns (Italian Presidency of the Council of Ministers, 2020).

These legislative frameworks illustrate how European Union countries, both at the EU and national levels, manage and regulate foreign direct investments, including those from China, to safeguard national interests and ensure economic security and stability.

The investment policies of the BRICS countries are characterized by a combination of economic openness and strategic protectionism, with each country having its own rules and priorities.

China has a complex regulatory framework for foreign direct investments (FDI), including a negative list of sectors where investments are prohibited or restricted, and imposes strict requirements for partnerships with local firms and technology transfer in priority sectors like technology and innovation (UNCTAD, 2021).

India has significantly liberalized its FDI regime, actively promoting investments in manufacturing, infrastructure, and technology, but maintaining caps and special requirements in strategic sectors such as media, defense, and civil aviation (Government of India, 2020).

Russia allows foreign investments in most economic sectors but imposes restrictions in areas considered strategic, such as energy, natural resources, and the defense industry, and favors strategic partnerships between foreign investors and state-owned companies (Russian Federation, 2021).

Brazil is one of the most open BRICS economies for FDI, offering foreign investors nearly unrestricted access to most sectors but imposing restrictions on the acquisition of agricultural land and protecting certain sectors like media and aviation (Government of Brazil, 2019).

South Africa has a relatively open FDI regime, promoting investments in sectors that can stimulate economic growth and job creation, but imposing requirements for local development and employment in strategic sectors like telecommunications and natural resources (Government of South Africa, 2020).

Thus, while these countries are eager to attract foreign investments to boost economic growth, they often impose strict conditions to protect sensitive sectors and ensure that the economic benefits align with their national development goals, and European investors must navigate a complex regulatory landscape but can find significant opportunities for partnerships and economic development in these markets.

3. Data analysis

As previously highlighted, the analysis of foreign direct investment (FDI) flows in BRICS countries, based on data from the period 2018-2022 provided by the World Bank, offers a clear overview of the dynamics of foreign investments in these emerging economies. Each of the BRICS countries has unique characteristics in attracting investments, influenced by economic, political, and global factors. In the following sections, we will analyze FDIs in the BRICS countries (Brazil, India, China, and Russia), with a focus on European investment exposure and the associated risks.

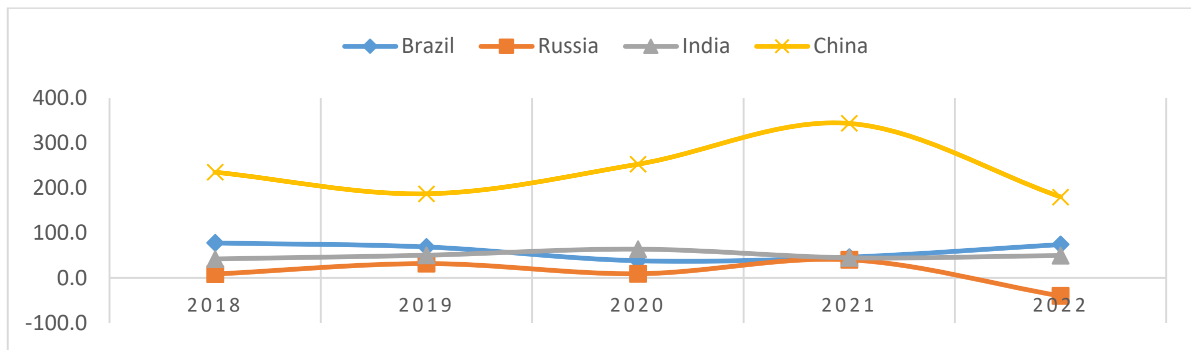

Figure 1: Evolution of FDIs in key BRICS countries from 2018-2022
Source: World Bank

As observed from the graph above, FDIs in Brazil have been relatively stable, ranging from $46 billion to $79 billion, with the only exception being in 2020, when FDIs were significantly affected by the COVID-19 pandemic. The pandemic caused a slowdown in the global economy, and many companies postponed or redirected their investments to other markets. In particular, the sectors most affected in Brazil were agriculture and natural resources, which are essential to the Brazilian economy.

In the case of Russia, the trend has been downward, with a pronounced decline, reaching negative values in 2022 due to severe economic sanctions imposed by the West, especially after the invasion of Ukraine in 2022, leading to a massive withdrawal of investments.

India experienced a relatively stable level of FDIs, with the highest value surprisingly reached in 2020 during the pandemic. This growth was significantly driven by the development of the IT sector, where India has a global competitive advantage due to its low labor costs.

In China, FDIs peaked in 2021 at $344 billion, followed by a sharp drop in 2022. This decline was influenced by the trade dispute with the USA and other Western powers, as well as the "zero COVID" policy implemented in 2022, which significantly reduced the attractiveness of the Chinese market for investors.

Other BRICS countries such as South Africa, UAE, Iran, Ethiopia, and Egypt were not included in the analysis due to a lack of reliable data on FDIs or their relatively low levels.

Table 2: Main investors in BRICS countries in 2022

2022				
From/To	Brazil	Russia	India	China
USA	18,0%		9,0%	
Netherlands	14,0%		7,0%	2,4%
Spain	5,0%			
France	3,0%			
UK	2,0%			
Japan	2,0%		6,0%	2,4%
Mauritius			26,0%	
Singapore			23,0%	5,6%
Hong Kong				72,6%
Virgin Islands				3,5%
South Korea				3,5%
Germany				1,4%

Source: UNCTAD

The main investor in Brazil is the USA, accounting for approximately 18% of total net FDI inflows, followed by the Netherlands with around 14%, Spain with 5%, France with 3%, and the UK and Japan with 2% each. This graph highlights that the USA is Brazil's main economic partner, reflecting close ties and a high level of interest from American investors in Brazil's natural and agricultural resources. It is also worth noting that approximately 24% of the total net FDI inflow comes from European countries, making Brazil somewhat exposed to economic and political risks in the region, which could impact it if there is economic instability in Europe.
As for India, Mauritius is the main investor with 26%, followed by Singapore with 23%, the USA with 9%, the Netherlands with 7%, and Japan with 6%. Investments from Mauritius are explained by the tax advantages offered by the country. Multinational companies often use Mauritius as a tax haven to invest in India. Singapore is the second-largest source of FDIs, reflecting strong economic and trade ties between the two Asian countries. The USA and the Netherlands also play significant roles, followed by Japan, with all three countries having a major presence, especially in the technology and industrial sectors. Unlike Brazil, India is less dependent on European investments, with the Netherlands being the largest European player with a 7% share.
In China, the main investor is Hong Kong, accounting for 72.6% of total FDIs, followed by Singapore with 5.6%, the British Virgin Islands and South Korea with 3.5% each, and the Netherlands and Japan with 2.4% each, while Germany accounts for 1.4%. To better understand the origin of foreign investments from Hong Kong, according to the UNCTAD World Investment Report 2023, the largest investor in Hong Kong is the British Virgin Islands, representing 30.9% of total foreign direct investment worth $117.7 billion. This indirectly highlights China's reliance on investments coming from the British Virgin Islands. Being a tax haven, there is a lack of relevant data on the largest foreign investors from this region.
Russia was excluded from this analysis due to the lack of official data on major foreign investors in the country, as a result of Western sanctions imposed in 2022 after the invasion of Ukraine.

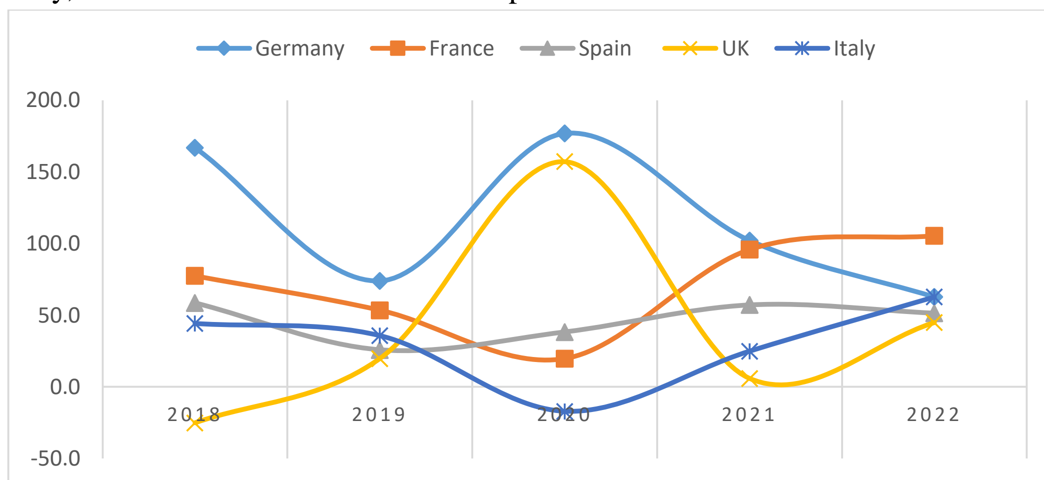

Figure 2: Evolution of FDIs in major European countries from 2018-2022

Source: World Bank

In 2020, FDIs in Germany peaked at $176.9 billion, driven by the reinvestment of earnings by foreign companies, which saw Germany as a safe destination in the context of the pandemic due to its economic stability and effective support measures. Additionally, Germany, being highly

developed in the industrial sector, benefited from consistent demand for technological and industrial goods, while investments in green energy and digitalization attracted additional capital. In the UK, FDIs reached their highest point in 2020 at $157.2 billion, mainly due to the official completion of Brexit, which created short-term investment opportunities as companies adapted to the change. London, the capital of England, remained an attractive global financial center even amid the uncertainties related to the pandemic. However, after 2020, post-Brexit uncertainties, new trade agreements, and the effects of the pandemic led to significant declines in FDIs, reflecting the economic and trade challenges facing the British economy during the transition period.

Spain's FDIs were less affected by the pandemic, although there were some declines in sectors such as tourism and real estate. However, these decreases were not significant, and the country managed to offset them through other sectors of the economy, with FDI flows remaining relatively stable due to continued interest in the country's energy and digital infrastructure. The stability of FDIs suggests that, despite economic challenges, Spain remains an attractive destination for long-term investments.

France saw a drop in FDI inflows from $53.6 billion in 2019 to $19.7 billion, primarily due to the severe impact of the pandemic. However, this was not as dramatic as in Italy, which was the most affected country among those analyzed, with net FDI inflows falling from $35.76 billion in 2019 to -$17.05 billion in 2020. Italy was one of the first and hardest-hit countries by the COVID-19 pandemic, facing a deep health and economic crisis, exacerbated by the aging population and stricter quarantine measures compared to other European countries.

Table 2: Main investors in European countries in 2022

2022					
From/To	Germany	France	Spain	UK	Italy
Luxembourg	21,1%			6,1%	17,7%
Netherlands	17,5%	6,5%		10,9%	23,7%
USA	10,0%	18,3%	18,8%	33,7%	
Switzerland	8,2%	14,1%		3,7%	6,1%
UK	8,2%	11,4%	11,3%		7,6%
France	5,3%		11,4%	5,0%	17,6%
Austria	4,1%				
Italy	3,9%	6,7%	8,9%		
Japan	3,5%			4,6%	
Germany		14,1%	9,6%		9,2%
Belgium		6,2%		4,4%	
Mexico			5,3%		
UK Offshore Islands				10,2%	

Source: UNCTAD

Unlike the three BRICS countries analyzed in this article, we can observe a significant difference in FDI levels between European countries and BRICS. In none of the five European countries analyzed do we find China, Brazil, Russia, or India among the top investors, highlighting that European countries are not dependent on investments from BRICS. Instead, FDI flows to these European economies largely come from developed countries such as the USA, European nations (Netherlands, France, Germany, Italy, Switzerland, Luxembourg), and Japan. This shows that European economies are predominantly interconnected, with investors coming mainly from other developed economies.
The main investors in Germany are Luxembourg with 21.1%, followed by the Netherlands with 17.5%, the USA with 10%, Switzerland with 8.2%, the UK with 8.2%, France with 5.3%, Austria with 4.1%, Italy with 3.9%, and Japan with 3.5%. This demonstrates Germany's deep economic connections with European economies.
In Spain, the main investors are the USA with 18.8%, the UK with 11.3%, France with 11.4%, Italy with 8.9%, Germany with 9.6%, and Mexico with 5.3%. Similar to Germany, this reflects Spain's dependence on European and US economic partners, with no significant influence from BRICS countries.
In Italy, the largest foreign investors are the Netherlands with 23.7%, France with 17.6%, Luxembourg with 17.7%, Germany with 9.2%, the UK with 7.6%, and Switzerland with 6.1%. Again, there are no major investors from BRICS countries, validating the similar FDI pattern characteristic of European countries and advanced economies.
The same applies to France and the UK, where no major BRICS players are present, further highlighting the low dependence of European countries on BRICS.

4. Conclusion

In conclusion, the analysis of foreign direct investment (FDI) flows in BRICS countries (Brazil, Russia, India, China, South Africa) and key European economies (Germany, France, the UK, Italy, and Spain) has demonstrated significant differences in the structure and origin of these investments. On the one hand, BRICS countries, especially India and China, have relied heavily on regional investments or tax havens such as Mauritius, Hong Kong, or the British Virgin Islands. This dependence on regional investors and emerging economies reflects a more limited diversity of external capital sources and weaker connections to developed economies.
On the other hand, the European countries analyzed show no significant dependence on BRICS investments. Instead, they are highly interconnected with each other and with other developed economies such as the USA and Japan. This interdependence among developed economies in Europe and North America highlights the stability and maturity of European markets, which attract investments that are less vulnerable to economic and geopolitical shocks from emerging economies.
Thus, we have demonstrated that European economies are far more integrated into the global economic networks of developed countries, while BRICS countries rely more on capital from regional sources or countries with favorable tax strctures. This reflects differences in the level of economic development and the long-term attractiveness of these markets to investors.

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