МИНИСТЕРСТВО НАУКИ И ВЫСШЕГО ОБРАЗОВАНИЯ
РОССИЙСКОЙ ФЕДЕРАЦИИ

Уральский федеральный университет
имени первого Президента России Б.Н. Ельцина

Институт экономики и управления

Международная конференция студентов и молодых ученых

«Весенние дни науки ИнЭУ»

17 – 20 апреля 2024 г.

Сборник докладов

Екатеринбург
2024

УДК 332.1(063)
ББК 65.04Я431
Р76

Р76 **Весенние дни науки ИнЭУ**: Сборник докладов международной конференции студентов и молодых ученых. 17 – 20 апреля 2024 г. Электронное научное издание; ФГАОУ ВО «УрФУ имени первого Президента России Б.Н. Ельцина». – Екатеринбург: Изд-во Издательский Дом «Ажур» — 1570 с.

ISBN 978-5-91256-667-7

В сборник вошли материалы докладов, представленных на тематических секциях в рамках цикла специальных мероприятий международной конференции студентов и молодых ученых «Весенние дни науки ИнЭУ», которая состоялась в Екатеринбурге 17 – 20 апреля 2024 г. Организаторы конференции: Институт экономики и управления УрФУ.

Сборник подготовлен Институтом экономики и управления Уральского федерального университета имени первого Президента России Б.Н. Ельцина. Адресован исследователям, студентам, магистрантам и аспирантам.

Все материалы представлены в авторской редакции.

Статьи сборника включены в Российский индекс научного цитирования (РИНЦ)

УДК 332.1(063)
ББК 65.04Я431
Р76

UDC 330.322

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ANALYSIS OF BRICS INWARD FDI TRENDS

Abstract:
This study will focus on the specifics of the BRICS investment environment, and the extent to which these countries used to cooperate and are willing to partner further in this area. The research analyzes the factors determining flows of Foreign Direct Investment (FDI) among the BRICS countries.

Keywords:
BRICS, FDI, investment promotion, investment attraction, expansion.

In the context of the current crisis in the international economy and the challenge of securing sustainable growth, the BRICS act as a potential driver of change. Considered a new pole of development, the bloc is increasing its economic power. In January 2024, six new members joined the group – Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates. Since then, the goal of forming a “trans-regional” or even “transcontinental” partnership has become several steps closer: the BRICS unites the growing economies of Eurasia, Africa and Latin America. Russia’s idea of building a “Greater Eurasia” and China’s “One Belt, One Road” initiative are translated into action-oriented policies and approaches.

The BRICS have developed a common vision for the years ahead, as contained in the Strategy for BRICS 2025, including the priorities of FDI promotion. FDI is one of the most effective tools for launching projects and production processes simultaneously in several countries. For the BRICS, it is important from a strategic point of view, especially for the development of critical sectors of the economy. This can be noticed at the levels both of individual companies and sovereign states, as diversification of risks is, to a certain extent, applicable to each of the “layers” of the economic system.

As the BRICS Initiative on Trade and Investment for Sustainable Development concludes, member countries are interested in creation of the “favorable environment” for investment relationship and enhancing policy coordination on investment promotion [1]. Specifically, improvement of partnership in investment projects and financing the critical infrastructure, as well as ultimately facilitating investment engagement, is proposed [2]. In this regard, the research aims to verify the following hypothesis: the BRICS attractiveness for FDI inflows is sufficient and cooperation in this area is diversified. To approve or reject this assumption, the key indicators of investment activity of the BRICS countries, the directions of investment flows and their geographical spread will be analyzed. The ranking of countries in terms of global competitiveness, sustainable growth and the development of investment policies will be assessed on the basis of a range of international ratings.

Inherently, foreign direct investment as a category represents inward or outward flows of capital aimed to get control over the decision-making process at the recipient enterprises [3]. In other words, direct investment is made by the resident of one (source) economy to another (host) economy and undertake the principle of the ‘lasting interest’, which is a strategic long-term relationship followed by getting access to local resources (which might be in endowment and thus crucial for the operational growth) [4]. The ‘lasting interest’ calls for at least 10% of controlling stake at the recipient company and is evident if the voting power is by 100% taken by the foreign investor [5]. The latter is the typical situation of establishing foreign affiliates on the territory of the host country.

Considering that multinational enterprises (MNEs), or multinationals, are the central agents conducting FDI and generating cross-border flows, they are motivated to internalize due to different reasons [6]. According to Hymer and Rugman, this is because of exploring the firm-, industry- or sector-specific advantages of the host economies instead of relying only on the local resources endowment. Dunning developed the ‘OLI’ paradigm which explains the necessity of ownership, location and internalization advantages giving companies an opportunity to leverage their risks by establishing affiliates in different countries. Vernon observed that capital-intensive technologies are of great importance for flows across borders to contribute to growth convergence.

FDI movement is a dualistic process, because MNEs might be interested either in pursuit of new capabilities or more efficient exploitation of the existing ones. There are two directions of FDI application: greenfield and brownfield investment projects, respectively. The former allows to build up new enterprises or infrastructural objects, while the latter tends to mergers and acquisitions (M&As) [7]. Finally, two types of FDI exist: horizontal investment give an advantage of market expansion by the means of operating in the same plane at different countries, whereas vertical investment are a part of scope increase and economies of scale by means of seeking for lower factor price, as well as splitting up production of value added [8].

Taking into consideration states as the largest agents providing institutional and legal basis for direct investment cooperation, foreign investors are interested in gaining balanced economic growth with respect to sustainable investment co-movement. According to the theory of investment development paths (IDP), countries consistently go through several stages while enhancing their investment positions and becoming the active player in this field [9]. The most remarkable contribution of the IDP relates to the international investment agreements (IIAs), commonly divided into bilateral investment treaties (BITs) and treaties with investment provisions (TIPs) [10]. The major difference between them lies in the scope of regulation: BITs are investment agreements, while TIPs provide rules for different economic spheres alongside with investment cooperation framework.

Additionally, one of the most vital factors impacting the attraction of FDI to economies is the quality of regulatory practices. Investment policies can be liberal or geared towards protecting domestic industries. The first constitutes the opportunity to build an open-to-investments economy with light procedures, while the second provides investment-related restrictions and with a view of protecting the domestic industry. Liberalisation of the investment climate can be achieved through tax incentives, investment guarantees, facilitation services and direct capital participation. Restrictions include investment approval procedures, thus affecting repatriation of funds and foreign loan requirements, notification processes and screening for national security – just to name a few [11]. Choosing the best approach to attract investments for stimulating growth is a challenging issue for any country, especially a developing one. A key question is what motives might stand behind the FDI cooperation of the BRICS as a fast-growing bloc, in addition to the necessary policy implications and prospects of their direct investment relationship.

BRICS countries are presumingly self-relied, and their economic growth is strongly connected with the competitive environment inside the bloc, which, however, makes their investment cooperation complicated [12]. The literature tackling the issue of BRICS direct investment relationship reflects the main determinants of FDI movement, especially those accelerating the respective processes. Market size, trade activities, exchange rate dynamics, human capital development and macroeconomic growth are provided as the key factors affecting the direct investment attraction [13; 14]. Meanwhile, there is a strong impact of local governance effectiveness, political stability and regulatory quality on FDI inflows promotion [15]. In addition, financial market depth and efficiency are identified to be of crucial importance for investments [15]. Specifically, in the short run FDI are promoted by overall growth (China and South Africa), financial development (India), human capital accumulation (South Africa), macroeconomic stability (India and Russia) and trade openness (Russia) [16].

With regard to the directions of investment cooperation, there is empirical evidence that in more than two decades BRICS multinational companies – as the major agents contributing to FDI movement – have increased their cross-border transactions by twelve times [17]. Local multinationals are present mainly in extracting industries, as well as in transport sector and chemical manufacturing [17]. It was also specified that both horizontal and vertical types of FDI are practically applicable to BRICS countries; while the former is of strategic interest to China, the latter is mostly used by India and Russia [14]. As for the investment climate in BRICS, it is observed that there are various non-uniform challenges these economies face, including difficulties in formulating a common investment policy [13]. Brazil experiences a macroeconomic deterioration, budget deficit and inefficient inflation targeting; India has high poverty levels, and so does South Africa; Russia deals with administrative barriers, low quality of infrastructure and regional inequalities in income distribution, simultaneously being under sanctions. BRICS require certain policy conditions to promote FDI inflows and for it to expand. This includes: assembling targeted investment institutions at the national and supra-national levels, bringing in the sector-specific investment initiatives, infrastructural improvement and building up more flexible financial regulations [18]. As it stands, countries have different motives in reforming their economies to boost their investment climate. For instance, Brazil provides assistance services, tax exemptions and targeted funding; in India there is a demand for easing of approval and licensing procedure, as well as reducing bureaucracy; Russia faces the need in investment in fixed assets and infrastructural modernization, etc. [19; 20].

There are many essential implications for BRICS to attract more FDI, including: enhancement of transparency, speeding up the administrative routine, best practices exchange and encouragement of sustainable investment [21; 22]. Moreover, there might be a vital trend appearing nowadays. Recent developments in investment promotion policies cause large-scale reconfiguration of national entrepreneurship, so that due to the dual national interests (for instance, import substitution or export promotion) there is a need in a uniform regulation system for BRICS [23].

Based on recent findings contained in scientific articles and legal documents, this paper considers the dynamics of BRICS inward FDI, taking into account the expansion of the group in 2024 and its efforts to make the BRICS attractive for FDI. Global rankings are analysed in order to find out the level of competitiveness, sustainability and regulatory quality of BRICS countries. Finally, policy implications are considered with respect to their efficiency for BRICS investment promotion.

In order to determine the level of investment attractiveness of the BRICS countries, their place in global rankings will be considered first (table 1). The next step is to develop a scale for the estimations presented in these ratings and to process them further for the purposes of building an investment climate profile for BRICS.

Table 1 – Description of sampled global rankings [24; 25; 26; 27; 28]

Ranking	Abbreviation	Source	Explanatory notes
Economic Globalisation Index	EGI	KOF Swiss Economic Institute	Compiles the degrees of financial and trade globalisation of countries in two dimensions: de facto and de jure. Estimates grade from 0 to 100.
Global Competitiveness Index	GCI	IMD World Competitiveness Center	Evaluates the major competencies for long-run economic growth of 64 countries. Uses 336 indicators reflecting the performance of national economy, government effectiveness, business efficiency and infrastructure development. Varies from 0 to 100.
Sustainable Development Index	SDI	UN Sustainable Development Solutions Network	Measures the progress of countries towards the realization of sustainable development goals (SDGs) formulated by the UN. Varies from 0 to 100, showing the share of achieved goals in all enlisted.
Index of Economic Freedom (overall score)	IEF	The Heritage Foundation	Covers 12 spheres of economy across 184 countries. Includes 4 pillars of freedom: rule of law, government size, regulatory efficiency and open markets. Overall score is graded from 0 to 100.
Investment Freedom subindex	IFsI		Measures the level of investment restrictiveness, including the regime of national treatment, screening barriers, bureaucratic issues, risk of expropriation, exchange control, ability of benefits repatriation. All in all, reflects the degree of investment security and transparency, as well as the state of provided infrastructure and legal resources.
Business Freedom subindex	BfsI		Grades the level of constraints existing for the entrepreneurship and investment activities, including indicators of infrastructural access, risks, regulatory quality, etc.
Tax Burden subindex	TbsI		Compiles the marginal tax rates imposed in the economy and the level of taxation with respect to gross domestic product.
Property Rights subindex	PrsI		Assesses the legal framework securing the property rights, risks connected with expropriation of property, level of security for intellectual property rights and other factors.
Regulatory Quality Index	RQI	The World Bank	Subscores vary from 0 to 100 and are measured in percentiles. The higher is the percentile rank, the better is the governance. RQI measures the 'soundness' of governmental decisions related to the private sector development. CCI reflects the perceptions about private gains, elites, etc.
Control of Corruption Index	CCI		

A set of conditions, institutions and agents that collectively form the attractiveness of the country for foreign direct investment is considered in order to assess the overall investment climate. The investment climate can include the opportunities and risks that exist for countries within the framework of the development of their investment cooperation. The ultimate goal of such analysis is to formulate the proper strategy for more efficient direct investment promotion.

The profile of the investment climate of the BRICS is comprised of major factors, which are assumed to have the most explicit impact on investment attractiveness of the whole bloc. There is a draft version of such a profile in table 2. This profile is an adapted STEP analysis, implying an author's assessment of the main social, technological, economic and political factors influencing the level of investment attractiveness of the BRICS [29].

Table 2 – General view of the investment climate profile

Factors	Importance for BRICS	Direction of influence	Overall degree of vitality
1	2	3	4
Factor 1	1	-1	-1
Factor 2	2	+1	2
…	…	…	…
Factor N	3	+1	3

Here the importance of a particular factor is graded by the score from 1 to 3, where 1 stands for an "insignificant" criterion, 2 – for the "relatively significant", 3 – for the "significant" one. Direction of influence is estimated either by +1 (positive) or -1 (negative). The overall degree of vitality is evaluated by multiplication of the second and the third columns.

UNCTAD World Investment Report 2023 gives the observation of FDI dynamics of several BRICS countries [30]. Respectively, Egypt doubled its inward FDI as a result of boosting M&A deals and greenfield projects. Ethiopia faced a decrease in direct investment inflows, however, remaining the second largest FDI recipient in Africa. South Africa made up a corporate reconfiguration, which resulted in its return nearly to the highest FDI flows in comparison to the five-year average. The United Arab Emirates attracted the fourth biggest number of greenfield projects in the world, increasing its inward FDI by the highest amount ever recorded. Brazil was ranked as the fifth country by the number of international financing projects.

If taking into consideration the dependance of the national accounts on FDI (table 3), it is observed that direct investments represent a substantially low fraction of national income (or gross domestic product, GDP) in Brazil, the United Arab Emirates, Egypt and Ethiopia. At the same time, they constitute a small portion of expenditures in Russia and the United Arab Emirates. Moreover, FDI make up a more significant share of the gross capital formation (GCF) in Brazil, Egypt and the United Arab Emirates. Numbers in bold are initially negative because of the real numbers in the form of the reverse investments, so that taken by the absolute value.

Table 3 – BRICS FDI flows relative statistics, 2012–2022 [31]

Country	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Inward FDI, % of GDP											
Brazil	3,3	2,4	2,6	2,8	3,0	3,2	3,1	3,5	2,0	3,2	4,6
China	1,4	1,3	1,2	1,2	1,2	1,1	1	1,0	1,0	1,0	1,1
Egypt	2,2	1,6	1,5	2,2	3	3,8	3,3	2,8	1,6	1,2	2,9
Ethiopia	0,7	2,9	3,4	4,2	5,7	5,2	4,1	2,8	2,5	4,3	3,2
India	1,3	1,5	1,7	2,1	1,9	1,5	1,5	1,8	2,4	1,4	1,4
Iran	0,7	0,5	0,5	0,5	0,7	1	0,5	0,3	0,3	0,2	0,3
Russia	1,4	2,3	1,4	0,9	2,9	1,7	0,8	1,9	0,7	2,2	**0,9**
Saudi Arabia	1,7	1,2	1,1	1,2	1,2	0,2	0,5	0,6	0,8	2,3	0,7
South Africa	1,1	2,1	1,5	0,5	0,7	0,5	1,4	1,3	0,9	9,8	2,2
United Arab Emirates	2,6	2,5	2,8	2,4	2,7	2,7	2,5	4,3	5,6	5,1	4,6
Outward FDI, % of GDP											
Brazil	**0,3**	0,0	**0,1**	**0,7**	**0,3**	0,9	**0,9**	1,0	**0,9**	1,3	1,4
China	1,0	1,1	1,2	1,3	1,8	1,3	1,0	1,0	1,1	1,0	0,8
Egypt	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
India	0,5	0,1	0,6	0,4	0,2	0,4	0,4	0,5	0,4	0,5	0,4
Iran	0,2	0,0	0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	1,3	3,1	3,1	2,0	2,1	2,2	2,2	1,3	0,5	3,6	0,5
Saudi Arabia	0,6	0,7	0,7	0,8	1,4	1,1	2,4	1,7	0,7	2,9	1,8
South Africa	0,7	1,7	2,0	1,7	1,4	1,9	1,0	0,8	**0,6**	0,0	0,6
United Arab Emirates	0,7	2,3	2,9	4,7	4,4	3,7	3,6	5,1	5,3	5,6	5,0
Inward FDI, % of GCF											
Brazil	16,1	11,4	13,1	15,5	19,3	22,2	20,7	22,5	11,8	16,4	27,9
China	3,2	2,9	2,8	2,9	2,9	2,7	2,3	2,3	2,4	2,4	2,6
Egypt	14,8	12,1	12,3	16,0	20,7	25,6	20,1	15,8	11,6	9,1	20,2
Ethiopia	1,9	8,6	9,3	10,6	16,0	13,8	12,2	8,0	8,1	18,2	15,7
India	3,6	4,5	5,3	6,8	6,6	5,1	5,0	6	8,6	4,6	5,1
Iran	2,4	1,9	1,6	1,9	3,3	4,5	2,0	1,3	0,9	0,9	1,0
Russia	6,3	10,6	6,6	4,2	13,3	7,5	3,9	9,1	3,3	11,0	**5,3**
Saudi Arabia	7,4	5,0	4,2	4,2	4,4	0,8	2,5	2,6	3,3	9,8	4,0
South Africa	5,9	11,2	8,3	2,8	4,0	3,2	8,5	8,6	6,6	74,7	16,5
United Arab Emirates	12,3	13,7	14,0	10,2	11	14,2	14,2	24,4	27,2	24	26,4

According to the IMF survey, the volumes of inward bilateral FDI can be considered for the original BRICS members (figure 1). The highest intra-BRICS direct investments are coming in Brazil from South Africa; in China – from Brazil, India and Saudi Arabia; in India – from China and Russia; in Russia – from China and India; in South Africa – from the United Arab Emirates, China and India. South Africa and India receive the highest inflows of direct investments from the expanded bloc.

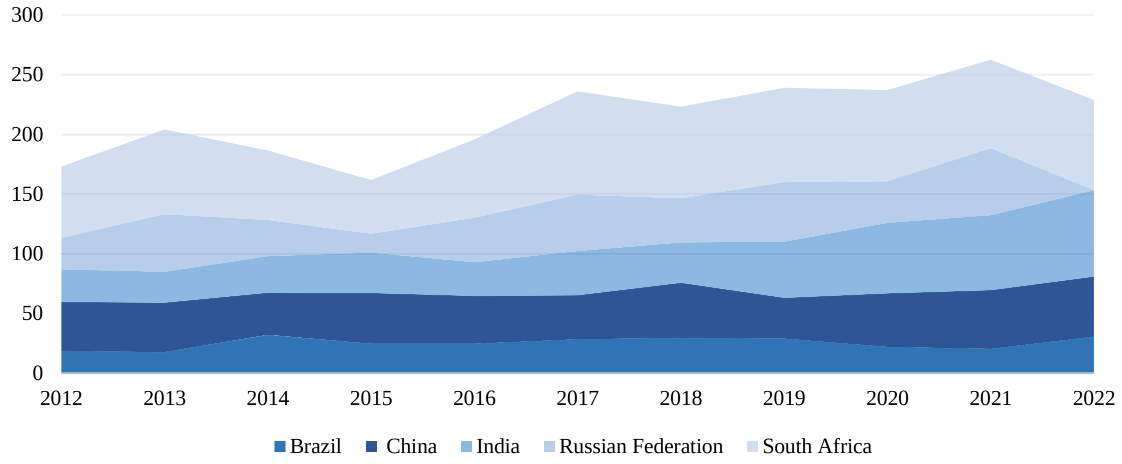

Figure 1 – Inward bilateral FDI of BRICS in 2012–2022, bln US$ [32]

The most elaborated basis for investment cooperation (table 4) is provided by agreements within BRICS for the following countries: China (with 7 partners out of 9), the United Arab Emirates (6 out of 9) and Egypt (5 out of 9). Notably, there are more purely investment agreements in the list.

Table 4 – BRICS International investment agreements (IIA) in force (as of 16.01.2024) [10]

IIA parties	IIA type	Year of entry into force
Egypt – Saudi Arabia	TIP	1990
China – United Arab Emirates	BIT	1994
China – Egypt	BIT	1996
China – Saudi Arabia	BIT	1997
IIA parties	IIA type	Year of entry into force
Iran – South Africa	BIT	1997
China – South Africa	BIT	1998
Egypt – United Arab Emirates	BIT	1999
Egypt – Russia	BIT	2000
China – Ethiopia	BIT	2000
Russia – South Africa	BIT	2000
Ethiopia – Iran	BIT	2004
China – Iran	BIT	2005
Egypt – Ethiopia	BIT	2010
China – Russia	BIT	2009
Russia – United Arab Emirates	BIT	2013
India – United Arab Emirates	BIT	2014
Iran – Russia	BIT	2017
Ethiopia – United Arab Emirates	BIT	2021
India – United Arab Emirates	TIP	2022

In recent decades BRICS have initiated a number of large-scale investment projects in various sectors – from primary industries to services and high-tech manufacturing [33]. For instance, the New Development Bank (NDB) of BRICS enlists the major directions for multilateral investment allocation, which are: transport infrastructure, water and sanitation, social infrastructure, clean energy and efficiency, environmental protection and emergency assistance [34]. Therefore, BRICS countries balance between different incentives of FDI allocation, including efficiency seeking (transport services and logistics, machinery and equipment), natural resource seeking (extracting industries and agriculture) and market seeking (trade and retail, power and utilities) [35]. If speaking about the MNEs initiatives, or greenfield projects, China, India and the United Arab Emirates contribute mostly to realization of them (figure 2).

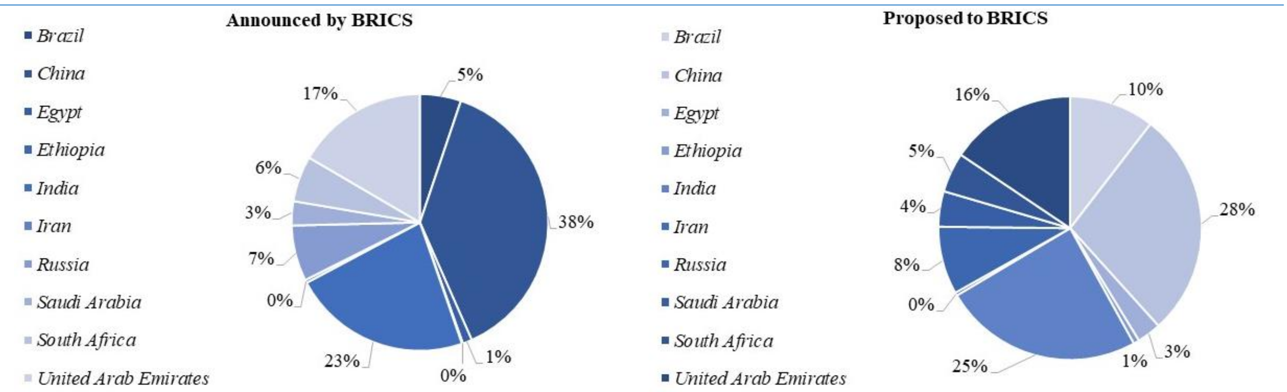

Figure 2 – Average share of BRICS members in implemented greenfield projects (2012–2022), % [31]

BRICS MNEs affiliates network – being a major part of the projects mentioned – is mostly constituted by the companies from China, India and Russia (table 5). Noticeably, there are 471 subsidiaries of Indian multinationals, most of which are located in Brazil and the United Arab Emirates; 20 Chinese enterprises in Russia and the United Arab Emirates jointly; 13 Russian affiliates. For example, in the 2022 UNCTAD ranking of the biggest non-financial MNEs there are 10 Chinese corporations, such as CNPC, Tencent, Huawei, etc., and one company from Saudi Arabia named Saudi Aramco [36]. Meanwhile, in the 2021 ranking, created especially for the developing and emerging countries, multinationals from Brazil, South Africa and India could also be pointed out [36]. As it stands, China and India are the main beneficiaries of directly productive investment to other BRICS countries [37].

Table 5 – BRICS multinational activities (as for 27.02.2024) [38]

Source country	Recipient country	Number of foreign affiliates
China	United Arab Emirates	8
	Russia	12
India	Brazil	275
	China	34
	Egypt	7
	Ethiopia	3
	Russia	18
	Saudi Arabia	4
	South Africa	14
	United Arab Emirates	116
Russia	Brazil	9
	China	1
	Egypt	1
	India	2

Moving forward, BRICS places in global ratings are to be observed (table 6). The BRICS countries appear to be predominantly competitive, with a significant level of economic globalisation and openness. In general, an important component of their development at the current stage is sustainable growth and a relatively sufficient degree of economic freedom. However, if we consider separately such components of competitiveness as the quality of regulation and control over corruption, then in this regard, the BRICS members need further improvement.

Table 6 **–** Scores of BRICS countries in some global rankings [24; 25; 26; 27; 28]

Country	2012	2017	2022
EGI			
Brazil	53,54	52,3	42
China	51,25	52,84	46
Egypt	48,8	46,5	44
Ethiopia	26,62	26,9	29
India	43,73	44,36	42
Iran	28,94	31,09	28
Russia	54,56	52,06	54
Saudi Arabia	–	63,35	61
South Africa	65,81	68,91	53
United Arab Emirates	87,4	88,06	87
GCI			

Brazil	56,5	55,8	44,8
China	75,8	87,8	83,9
Egypt	–	–	–
Ethiopia	–	–	–
India	63,6	69,7	66,0
Iran	–	–	–
Russia	55,2	68,9	–
Saudi Arabia	–	74,3	76,8
South Africa	53,2	62,3	44,3
United Arab Emirates	82,5	94,1	88,7
SDI			
Brazil	70,9	72,0	73,7
China	66,2	69,9	72,0
Egypt	67,1	67,7	69,6
Ethiopia	49,3	52,3	54,6
India	55,5	60,1	63,5
Iran	64,6	68,0	69,1
Russia	68,7	72,6	73,8
Saudi Arabia	59,0	63,4	67,7
South Africa	61,1	63,0	64,0
United Arab Emirates	62,4	66,0	69,7
IEF			
Brazil	57,9	52,9	53,3
China	51,2	57,4	48
Egypt	57,9	52,6	49,1
Ethiopia	52	52,7	49,6
India	54,6	52,6	53,9
Iran	42,3	50,5	42,4
Russia	50,5	57,1	56,1
Saudi Arabia	62,5	64,4	55,5
South Africa	62,7	62,3	56,2
United Arab Emirates	69,3	76,9	70,2
RQI			
Brazil	56,9	47,6	43,9
China	42,7	45,2	36,8
Egypt	38,9	21,9	24,5
Ethiopia	14,7	12,9	17
India	33,7	42,9	50,9
Iran	7,1	10,5	4,3
Russia	40,3	31	13,2
Saudi Arabia	55,5	52,9	65,1
Country	2012	2017	2022
South Africa	64,5	60	44,3
United Arab Emirates	72,5	80,5	82,1
CCI			
Brazil	56,4	35,7	32,1
China	41,2	46,1	55,2
Egypt	33,7	39,1	26,4
Ethiopia	32,2	33,3	36,8
India	36,5	45,7	44,3
Iran	23,2	20,5	14,2
Russia	15,2	16,7	19,3
Saudi Arabia	56,9	63,3	63,7
Country	2012	2017	2022
CCI			
South Africa	53,1	52,4	44,8
United Arab Emirates	82,9	81,9	83,5

Looking more closely at the IEF subindices, one notices that the BRICS countries are characterized by an insufficiently stable business climate and disparate levels of investment attractiveness (table 7). A favourable tax policy towards foreign investors suggests that the BRICS has the potential to increase interest in investments. In its turn, regulation of intellectual property rights is rather weak. Only the United Arab Emirates have the most favorable investment climate.

Table 7 – Scores of BRICS countries in IEF subrankings (2024) [25]

Country	**IfsI**	**BfsI**	**TbsI**	**PrsI**
Brazil	50	67	69,7	49,1
China	20	68,1	69,1	46,9
Egypt	65	48,9	85,4	40
Ethiopia	30	44,1	78,4	27,7
India	40	68,3	73,7	49,2
Iran	5	37,9	81,1	23,8
Russia	30	54,4	89,8	20,9
Saudi Arabia	50	69,9	99,1	47,6
South Africa	40	61,4	65,2	44,7
United Arab Emirates	50	80,2	100	64,8

FDI restrictiveness level in BRICS is rather low, the most substantial obstacles for investments are recorded in China and Saudi Arabia – as their indexes are closer to 1 (table 8). The prevalent barriers to investment entry within BRICS are: sectoral screening (specifically in terms of national security), restrictions on hiring foreign workers and reducing foreign capital ownership [39]. On the other side, investment facilitation is made by means of increasing foreign equity ceiling, opening closed sectors and streamlining land ownership.

Table 8 – OECD FDI Restrictiveness Index of BRICS [40]

Country	2012	2017	2020
Brazil	0,095	0,095	0,081
China	0,432	0,328	0,214
Egypt	0,126	0,094	0,117
Ethiopia	–	–	–
India	0,275	0,217	0,207
Iran	–	–	–
Russia	0,175	0,184	0,262
Saudi Arabia	0,393	0,324	0,211
South Africa	0,055	0,055	0,055
United Arab Emirates	–	–	–

BRICS countries are putting a lot of effort into investment policy easing. In the last five years, a significant number of liberalizing measures were introduced at the national level [33]. The Brazilian government expanded market access to foreign investors in airport services and energy sector, especially wind energy production. China lifted several restrictions in financial services, manufacturing, pharmaceuticals, etc. and allowed foreign investors to get joint-venture insurance for companies. India eased the entry of FDI into retail trading, news media and defense sector, specifically providing the ‘single window’ approach. Russia enhanced eligible investments providing the more liberal rules of property registration, contract enforcement, etc. South Africa launched the special initiative giving an opportunity to facilitate notification and registration procedures for all the investors.

Apart from government regulations, there are certain advantages in presence of special economic zones (SEZs), which provide preferential conditions for business. These are tax exemptions, single-window government services, customs clearance, etc. For instance, SEZs in BRICS countries are diversified by sectoral purposes, e.g. [41; 42; 43; 44; 45; 46; 47]:

– Chinese 21 pilot (or experimental) SEZs cover financial services, logistics, advanced manufacturing, information and computer technologies (ICT);

– Indian 278 functional SEZs are interested in ICT, logistics, pharmaceuticals, etc.;

– Russian 50 SEZs operate in such directions as pharmaceuticals, bio- and nanotechnologies, energy efficiency, ICT, automotive industry and others;

– Saudi Arabia has 5 SEZs working in automobile supply chains, consumer good production, ICT, logistics, food processing, shipbuilding, cloud computer services and others;

– the United Arab Emirates encompass 43 SEZs operating in maritime services, renewable energy production, trade and logistics, creative design, ICT and others;

– in South Africa there are 11 SEZs functioning in agro-processing, logistics, engineering, etc.;

– Egypt has 12 SEZs with targeted clusters promoting automotive assembly, chemicals and petrochemicals production, construction services, etc.

Therefore, the key elements and criteria for the creation of the most favorable and sustainable investment climate in the BRICS countries are: (1) FDI contribution to national income/expenditures; (2) distribution of FDI flows between countries; (3) presence of bilateral investment treaties; (4) sectoral diversity of investment projects; (5) presence of local multinationals` affiliates; (6) overall competitiveness; (7) sustainable economic growth; (8) level of investment and business freedom; (9) efficiency of policy implications; (10) SEZs benefits for foreign direct investors; and (11) restrictiveness of FDI movement.

The author`s estimations are presented in the figure 3. Presence of special economic zones, retrospective of the liberalizing reforms, bilateral agreements signed within BRICS, variety of sectors of the greatest interest and achievement of the sustainable development goals – all these factors are referred to as potentialities. Meanwhile, the most significant matters in direct investment promotion are inequalities in distribution of the partner structure among BRICS, entrepreneurship conditions and investment freedom.

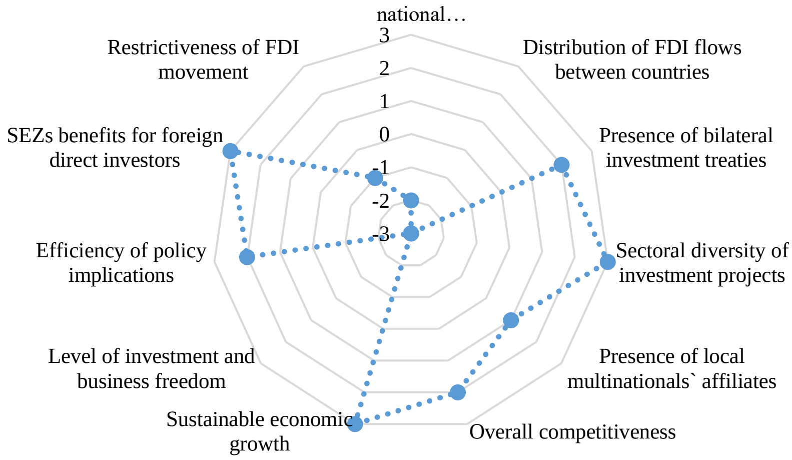

Figure 3 – BRICS joint investment profile

Consequently, BRICS should consolidate the opportunities to neutralize the threats. It might be done by elaborating the unified investment agreement on the basis of the existing BITs and TIPs, which will mitigate the shortcomings of the investment policies. Another option is to create a supra-national institution aimed to regulate, advocate and promote FDI attraction into the BRICS.

An important step has been taken recently at the meeting of the BRICS expertise centers. On March 6, 2024 representatives of the major departments of member states agreed to negotiate the Russian initiative of creating the International Investment Arbitration Center (IIAC) [48]. As part of the Center's activities, it is expected to use best practices to increase the consistency, transparency and predictability of arbitration decisions. It is supposed to be delocalized, remote and independent of national jurisdiction. Notably, IIAC might be considered as the trans-regional alternative for the International Centre for Settlement of Investment Disputes (ICSID) – a part of the World Bank Group. The contracting states of ICSID are China, Egypt, Saudi Arabia and the United Arab Emirates; these countries have the right to settle disputes within the framework of ICSID [49]. Meanwhile, Ethiopia and Russia are the signatory states. Brazil, India, Iran and South Africa are currently not engaged in ICSID, thereby, their access to investment arbitration is limited. In this regard, establishing IIAC is a vital step towards giving enough institutional opportunities to BRICS+ countries in FDI deals regulation.

Based on this analysis, it is observed that for now the BRICS mainly use their bilateral relations for the purpose of FDI. The BRICS have not yet been able to develop a unified investment strategy. The bloc implements many investment initiatives in priority sectors, e.g., in agriculture, the transport and logistics complex, extractive industries, etc. The desire of BRICS members to increase mutual flows of FDI, especially benefitting from of its recent expansion is clearly manifested, and with a view of strengthening the competitiveness of countries. However, the regulation of investment flows in the BRICS remains fragmented, and the level of investment attractiveness in the member countries differs significantly.

There is an urgent need to improve the attractiveness of direct investment attraction within BRICS. The central issue is to improve the mechanisms for implementing investment projects within the framework of the already existing supranational institution – the BRICS NDB – by creating a list of priority multilateral initiatives. Such a list may include design solutions aimed at the development of critically important sectors of the economy – healthcare, agriculture, energy, transport, etc. An important aspect is the development of strategies, the main task of which will be to identify model reform packages for the BRICS members in the field of promoting FDI. The ultimate goal of such reforms is to develop a level of investment attractiveness playing field within the bloc in order to enhance the multiplier effect of economic growth created by FDI.

Given the importance of FDI for the BRICS, attention should be paid to the pace of intra-BRICS investment cooperation, the hierarchy of the partner structure of investments and, finally, FDI sectoral application. Moreover, for the BRICS, as a bloc that is still emerging and awaiting further expansion, it is important to consider the degree of convergence and interdependency in the field of foreign direct investment with potential members of the grouping. The recent expansion of the BRICS appears to be a significant area for further research on investment cooperation, since with the arrival of new members the bloc has acquired new competitive advantages.

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