

## THE STRATEGIC CHARACTER OF THE COOPERATION RELATIONSHIP BETWEEN THE EU AND THE BRIC COUNTRIES

Iulia Monica Oehler-Şincai\*

**Abstract:** *Brazil, the Russian Federation, India and China (coined under the acronym BRIC at the end of 2001) are alongside the United States of America (USA), Canada, Japan, Mexico and South Africa the strategic partners of the European Union (EU). Although the relationships between the EU and each of the four largest emerging economies in the world have a common backbone – the bilateral trade and investment flows – each one bears its own particularities. In this article, our purpose is to explore the strategic partnerships between the EU and the BRIC countries with emphasis on the economic pillar of the EU-BRIC cooperation framework. In our investigation, we will start with the analysis of the “BRIC mechanism”, continue with a short presentation of the particularities of the individual relationships between the EU and each BRIC country, and conclude with emphasising the EU role in the process of modernization of these economies.*

**Keywords:** *EU-27, BRIC, emerging economies, strategic partnership, trade and investment flows.*

**JEL classification:** F50, F59, O24, O52-O54, O57.

### 1. The “BRIC mechanism”

Since 2001, the international experts have used the “BRIC” acronym in order to define the group of countries including Brazil, Russia, India and China<sup>1</sup>. **From an institutional point of view**, the alliance of the most powerful emerging economies of the planet is looked at with circumspection. It was asserted that BRIC were the only worldwide group first prefigured „in the

minds of economic analysts”, and only subsequently turned into „practical reality”<sup>2</sup>. Nevertheless, after two high level summits (Ekaterinburg, June 16, 2009 and Brasilia, April 15, 2010) and the official invitation addressed to South Africa to attend the third summit (which took place on the April 14, 2011 in Sanya, China), equivalent to a first enlargement of the BRIC group, we can assert that the “BRIC mechanism” works.

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<sup>1</sup> Jim O’Neill launched this acronym in his paper: *Building Better Global Economic BRICs*, Goldman Sachs, Global Economics Paper No. 66, 30.11.2001.

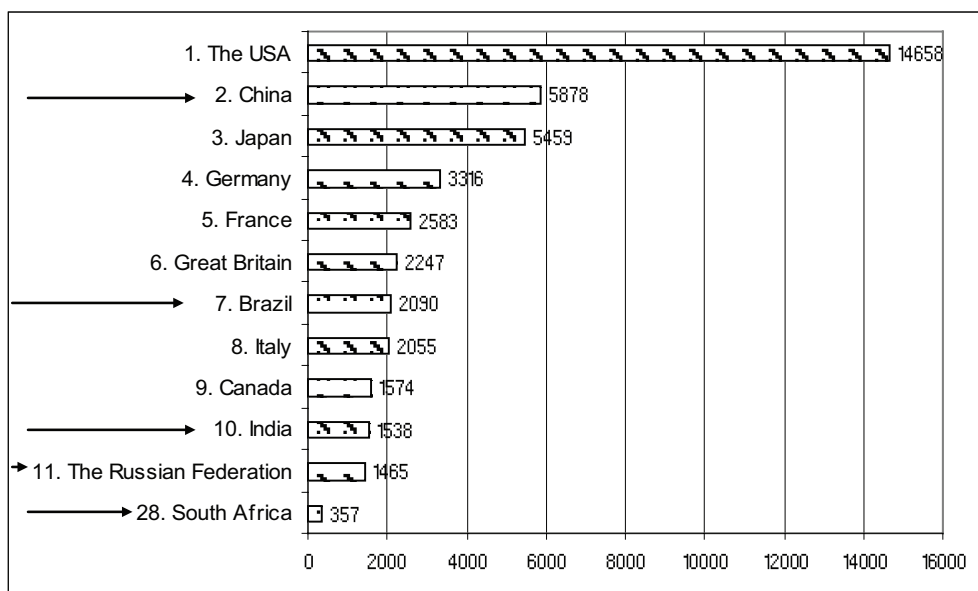
<sup>2</sup> Quotation of the former Brazilian Minister of Foreign Affairs, Celso Amorim, by Olga Kharolets – Official website of the Shanghai Cooperation Organization.

In a parenthesis, we underline that the invitation of the largest African country to join the BRIC group should be linked, on the one side, with China's need of commodities and, on the other side, with the South Africa's role as a "gate" to the African market. This geostrategic point of view is also emphasized through statistics: South Africa

But this step is surely the first one to pave the way towards other enlargements, as the BRIC countries represent the core of an alternative G-8: that of the emerging countries, in search for a common stronger voice on the international stage.

The BRIC countries had in 2010 a cumulative share of 40% in the total

**Chart 1: The BRICS' ranking among the world economies, taking into consideration the GDP at current prices in 2010 (values expressed in billion US dollars)**



Source: IMF (2011b).

(by all means an emerging economy) ranks only the 28th in the hierarchy of countries taking into consideration the GDP in current prices and, besides, it does not belong to the group of the Next-11 or N-11<sup>3</sup>, therefore the rhetorical question: why should it be invited to join the BRIC group before countries like Mexico or Turkey?

population of the planet, almost 18% in the global GDP (in comparison with the US, having a share of 19%), 16% in the international trade and 40% in the global foreign exchange reserves. Nevertheless, the IMF statistics indicate that, in 2015, the BRIC's share in the world GDP (22%) will surpass that of the USA (21%).

<sup>3</sup> Acronym launched at the end of 2005 by Jim O'Neill and including countries that, together with BRIC, have the potential to become the most powerful economies of the planet: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam.

Although the BRIC economies are not deeply integrated with each other, China is considered to be the “mortar” of the BRIC(S). Among the countries in the world, China is the trade partner number one for Brazil, Russia, India (and South Africa), even though the EU, as entity, represents the main trading partner of each BRIC(S) country (Wessel, Prada, 2011, DG Trade, 2010).

In the hierarchy of the world countries in terms of GDP (at current prices), China surpassed Japan in 2010, and ranks second, after the USA<sup>4</sup>. In addition, in 2010, China became the largest world producer of goods, bringing the supremacy cycle of the USA during 1895-2010 to an end. In 2010, China concentrated about 19.8% of the world production of goods, while the USA 19.4%. This percentage is, nevertheless, inferior to that detained by China in 1830 (30%). As a matter of fact, the largest emerging economy had been the “world manufacturer” in 500-1700, together with India and alone during 1700-1850 (Marsh, 2011).

For many years, China has been invited by the developed nations to play a more responsible role on the global stage. This is the moment China answers the invitation, by becoming the unofficial leader of the BRIC(S) and, at the same time, an exponent of the emerging economies (Anderlini, 2011).

In the context of the growing uncertainties in the world economy (through the external debt crisis of Greece, Ireland and Portugal from the Euro Zone, the recent events in the Middle East and North Africa, as well as the devastating earthquake and

subsequent tsunami in Japan), the BRIC(S) leaders consider that all the countries in the world should better coordinate their macroeconomic policies, so that the global growth could be *strong, sustainable and balanced*.

On the other side, the BRIC(S) countries consider that the US dollar cannot ensure the stability of the world economy, since it is strongly fluctuating, according to the internal economic situation. The US dollar still represents around 60% of the global foreign exchange reserves, while the currencies of the BRIC countries (BRL, RUB, INR and CNY) do not have a large scale utilisation. The largest emerging economies intend to change this status-quo.

The common goals of Brazil, Russia, India and China on the international stage do not mean that the relationships among them are without tensions. China is the strongest link in the BRIC chain, but, at the same time, it is the main source of divergences: for example, the undervalued yuan, or the bilateral trade surpluses recorded by China in relation with India and Russia.

Nevertheless, the common objectives on the global stage of the BRIC are stronger than the bilateral strains. Among the BRIC's priorities there are: strengthening the G-20<sup>5</sup> role at global level, reforming the international financial system, jointly with the reform of the United Nations (UN), World Bank, International Monetary Fund (IMF) and the World Trade Organization (WTO) (in respect of increasing the participation of the developing economies at the decision-making process), achieving

<sup>4</sup> Taking into consideration the GDP at purchasing power parity (PPP), China has been on the 2nd position, after the USA, for almost a decade.

<sup>5</sup> 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.

the Millennium Development Goals, sustainable development and cooperation – both among BRIC countries and between them and the rest of the world.

In other words, the “BRIC mechanism” is, on the one hand, a platform for coordinating the objectives of the emerging economies, in order to have stronger voice on the international stage and, on the other hand, a way to lessen the bilateral tensions.

## 2. Each of the EU-BRIC relationships in the spotlight

### 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 „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%) (DG Trade, 2010).

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 trade deficit existent in the relationships of EU with Brazil. The business summit EU-Brazil is also an important way to strengthen the long term bilateral trade and investment relationships.

At the political level, under the presidency of Luiz Inácio Lula da Silva<sup>6</sup> and, since January 1, 2011, under the presidency of his disciple, Dilma Rousseff, Brazil’s foreign policy has continued to focus on changing the international status quo in areas critical to achieving the country’s development goals, including the reform of the international trade and finance regime. The EU stance related to these issues is considered in line with the Brazilian interests. On the other hand, the gradual consolidation of the EU in the recent decades has given a new impulse to the longstanding ties Brazil maintains with the EU member states. (Ortega, 2004, p. 43).

<sup>6</sup> In Brazil, the president is also prime minister

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

Since the 1990s, within the new bilateral relationships delineated at economic and political level, we have remarked the consolidation of the cooperation between the EU and the Russian Federation. Nevertheless, the tensions between the two parties are still present, and they continue to be intensely evident in the energy and geo-political fields.

Some scholars even described the EU-Russia partnership as “awkward”, because, as foreign policy actors, the two entities are “totally different animals”. Russia is depicted as a “bear that at times cannot resist growling out of bad humour and intimidating its smaller neighbours” (Emerson, 2005, p. 1).

The EU and its strategic partner, the Russian Federation, have a cooperation relationship 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 based on the Partnership and Cooperation Agreement, acting in the political, economic and cultural fields. 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 21<sup>st</sup>) and that from Nice on November 14 (the 22<sup>nd</sup>). At the 21<sup>st</sup> 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 22<sup>nd</sup> 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, initiated at the 25<sup>th</sup> bilateral summit (of May 31- June 1, 2010, from Rostov on Don) contribute to the strengthening of the relationship between the EU and Russia and enhancing the trade and investment exchanges between the two parties.

Comparing the EU-Russian partnership with the Russia-USA one, some scholars consider that, in the second case, the accent is set on the security domain while in the first case, the cooperation develops around the “economic plus” axis (the Common Economic Spaces) (Kobrinskaya, 2004, p. 33).

Nevertheless, the EU's behaviour is based on the "principled engagement": searching for opportunities to develop the bilateral relations with Russia where possible, but "standing firm on the own principles where necessary" (Council of the EU, 2010, p. 35).

### **The Strategic Partnership EU-India, hardly developed until now**

The cooperation relationships 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 relationships 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 11<sup>th</sup> 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 group at high level 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 relationships 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, it is also a bilateral Cooperation agreement in the research field for obtaining energy by nuclear fusion<sup>7</sup>,

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<sup>7</sup> 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 24th of October 2007, after having been ratified by all the partners.



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<sup>8</sup>.

Nevertheless, despite the bilateral efforts to strengthen the cooperation at all levels, among the EU relationships with its strategic partners, that with India is less developed, fact highlighted also at the level of the bilateral trade and investment exchanges.

**As a second parenthesis, the USA**, after the end of the „American unipolar moment“<sup>9</sup>, 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. In 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.

#### **EU and China, „closer partners, increasing responsibilities“**

China and the EU set a bilateral official relationship in 1975 and in 1978 signed the first Commercial agreement between the two parties. In order to show 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 effectually initiated a new stage of the bilateral cooperation, 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

<sup>8</sup> At present there is in force a cooperation Agreement between the USA and India, related to the use of nuclear power for civil usage.

<sup>9</sup> 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.

sectoral dialogues on economic topics had been recorded between the EU and China<sup>10</sup>, most of them started 2-3 years ago, 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 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 mechanism aims also 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).

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 Lisbon Treaty) 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 opening abroad 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 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, while the surpluses of China and Japan diminished, and 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

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<sup>10</sup> 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](http://ec.europa.eu/external_relations/china/intro/sect.htm)).



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 will increase as well). But, both the RMB revaluation and the domestic consumption growth 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 during 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 concur to diminish 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 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 stability 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 – from 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''.

### 3. Interrelations between the EU and BRIC countries in the field of trade in goods, services and FDI flows

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 the '80s 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 globalization process, especially through the international trade and investment flows, intensified.

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). Of the four emerging economies under consideration, China is the most relevant case. 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, 2010, 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<sup>11</sup>. India wishes to accede in the group of developed countries before 2020. At its turn, the Russian Federation, 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, have and will continue to have an essential role to play in the innovation process of BRIC.

**In the field of the knowledge-based economy**, despite the remarkable scores in

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<sup>11</sup> 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*.

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<sup>12</sup> 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.

The above mentioned interrelations are reflected by the trade and investment flows between the EU and BRIC. For example, all the BRIC countries count among the main ten partners of the EU in the field of trade in goods, while the EU, as entity, has the largest share of the BRIC external trade in goods flows.

In 2009, the EU cumulative balance of trade in goods in relation with BRIC amounted to Euro 185 billion. The EU recorded an insignificant trade surplus in the relationship with India (Euro 2.1 billion), while the deficits of trade balances with China, Russia and Brazil were remarkable (Euro 133 billion, Euro 50 billion and, respectively, Euro 4.1 billion).

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

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 redounded also upon the EU trade in respect of diminishing the exports, imports, and accordingly, the trade balances.

**Table 1:** Shares of the BRIC countries in the exports and imports of the EU in 2000 and 2009 – trade in goods (in %)

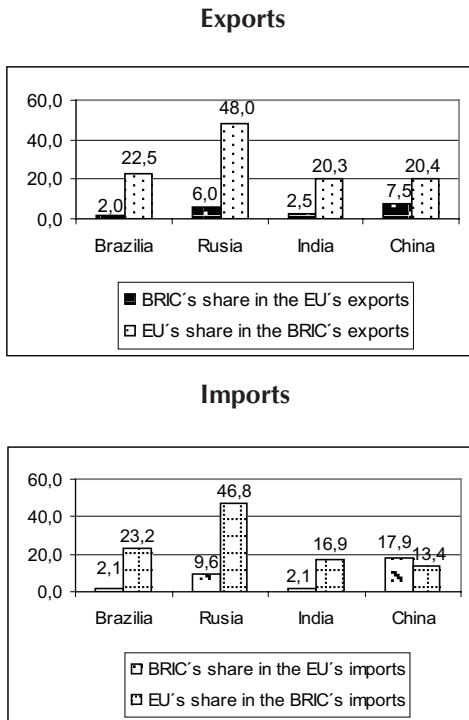
Share in the EU trade	Brazil		Russia		India		China	
	2000	2009	2000	2009	2000	2009	2000	2009
Export	2,0	2,0	2,7	6,0	1,6	2,5	3,0	7,5
Import	1,9	2,1	6,4	9,6	1,3	2,1	7,5	17,9

Source: DG Trade and Eurostat (2010).

<sup>12</sup> Information and Communication Technologies

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.**

**Chart 2: EU and BRIC reciprocal shares in trade in goods in 2009 (bilateral trade dependency) (in %)**



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

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 is higher than the EU share in China's imports, although the EU, as entity, is the main world 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 balance in relation with these countries;
- The shares of Brazil in the exports and imports of goods of the EU are similar, while the rate of India in the EU export is higher than in import. Besides, the EU trade balance with Brazil is negative, while EU records surpluses with India.

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, in 2009 (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, with a balance 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 EU against BRIC are obvious in the services sector.**

In comparison with the trade flows, the participation of the BRIC countries at the FDI flows of the EU is much lower.

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

Table 2: 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).

Beyond the factors related to the world financial and economic crisis, we would mention: complementarities between the EU and BRIC economies, their international specialization and their different competitive advantages, the historical affinities and the tradition of the relationships among various economies (for example, we can mention here the trade and investment relationships between Brazil and Portugal).

**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<sup>13</sup> reasons to invest abroad. In the FDI theory, 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 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

<sup>13</sup> Transnational Corporations, or multinational corporations or enterprises.

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 services 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 attractiveness 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 more strict transparency standards, pursuant to the world financial and economic crisis, the attractiveness degree of fiscal paradises declines, in favour of other countries such as BRIC.

*Instead of summing up, we reiterate that, 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 EU 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 wants to accede in the group of developed countries 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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