

## RUSSIA'S INVESTMENT COOPERATION WITH OTHER BRICS COUNTRIES UNDER CONTEMPORARY CONDITIONS

Evgeniya Shavina

Plekhanov Russian University of Economics, Moscow, Russian Federation

*Considering today's tense geopolitical situation (including sanctions initiated by Western countries onto Russian Federation due to the Ukrainian military conflict), cooperation between Russia and BRICS countries has special significance. Russia's interest in foreign direct investment (FDI) is growing, since the latter can significantly improve the economic situation in the country. BRICS countries have rich scientific and technological base, high potential and best practices in many vital areas, all of this can be exchanged in the course of fruitful cooperation. BRICS countries have 27% of the territory and 43% of the world's population, 25% of the world's GDP (China has 13% of the world nominal GDP, India - 5.5%, Russia - 3.7%, Brazil - 2.9%), and this statistical data only stirs up the interest in strengthening the investment cooperation between these countries. For now, BRICS participants are investing small amounts in each other's production due to a number of factors: investor distrust due to poor investment climate, large amount of risks and difficulties with production processes in some of the BRICS countries, institutional barriers to protection of intellectual property rights etc. Development of investment interaction between the BRICS countries will really take place only when the states take specific actions. In Russia, for example, it would be needed to speed up the process of improving the investment climate overall, to introduce a differentiated tax regime etc. Also, an important direction in this regard would be step-by-step implementation of the investment Road Map within BRICS. It will stimulate the activation of various forms of foreign economic interactions, primarily, foreign trade as well as industrial, scientific and technological cooperation in all fields and sectors.*

**Keywords:** investments, FDI, BRICS, Russia, BRICS Roadmap, New Development Bank.

### Introduction

Investment plays a crucial role in transition to a new model of sustainable economic development that meets the requirements of the global economy of the 21st century. It is impossible to ensure consistent economic growth without investments. Investment cooperation of Russia with other BRICS countries acquires special significance under the condition of today's aggravation of the geopolitical situation. FDI can significantly improve the economic situation of all BRICS countries and contribute to their economic development. The Ministry of Economic Development of Russian Federation is oriented towards active expansion of Russian business into the world markets and considers reorientation of Russia's



**Evgeniya V. Shavina**

Candidate of science, senior lecturer  
Plekhanov Russian University of Economics, Moscow, Russian Federation  
Research interests: multinational corporations, economic globalization, international business, innovative economics

E-mail: [e-shavina@mail.ru](mailto:e-shavina@mail.ru)

## RUSSIA'S INVESTMENT COOPERATION WITH BRICS COUNTRIES

foreign trade from the EU countries to China and India. The BRICS countries have a solid scientific and technological base, significant potential and best practices in a variety of fields, all of this can be exchanged, using such fruitful cooperation.

The purpose of this research is determination of the most effective directions and mechanisms in investment cooperation between Russia and the BRICS countries.

To achieve this goal, it is necessary to solve the following tasks:

- to determine the share of the BRICS countries in the world investment flows;
- to analyze Russia's mutual investment flows with other BRICS countries;
- to evaluate the investment potential of BRICS countries;
- to study the directions of Russia's investment cooperation with other BRICS countries, and also, to identify the factors worsening this investment cooperation;
- to identify the main mechanisms, instruments and prospects for investment cooperation between Russia and the BRICS countries.

### Literature Review

In connection with the strengthening role of integration associations, in particular, BRICS, in the world economy along with all the changes in geopolitical realities, the interest in the problems of investment cooperation between Russia and other BRICS countries is increasing. Various researchers worldwide have already considered in their works different forms of investment cooperation with other BRICS countries and they have also assessed the impact of FDIs on the economies of host countries.

Studies by Yeati E., Stein E. and Daude K. (2003) show that 100 regional agreements lead to an increase in mutual flows of FDI between the integrating countries by 27%. And since transnational corporations (TNC) tend to act as carriers of FDI, most states seek to create conditions so that to facilitate the import of capital onto their territory.

According to the study by Chen M. (2006), the ability of a regional bloc to attract significant volumes of foreign capital is stronger with more countries integrating into a particular organization. The most attractive country for FDI is the one that is affiliated to several regional blocs and serves as a liaison between competing organizations.

B. Kheifets (2014) examined a wide range of issues concerning the intensification of investment cooperation between BRICS countries, with its potential synergy effect, causing an increase in trade, production, scientific, technical and other economic interrelations and requires improvements in the monetary and financial spheres. For the first time in scientific literature, this author raised the issue of creating a BRICS free investment zone, which would allow a significant increase in mutual investments for all the countries involved.

Sakharov A. (2017) focused his studies on the investment policy of BRICS countries through the prism of the provisions of the OECD Framework for Investment (RCT) and determined four main areas in this regard: general characteristics of the investment regime and investment promotion, national regulatory regime for investment, trade policy and overcoming structural constraints. Following the analysis, he proposed a range of recommendations on the improvement of the investment environment in Russia

Wouters J. and Van Kerkhoven S. (2017) believe that, as a result of accelerating economic globalization, nation states are no longer able to increase their investment and trade alone without affecting the interests of other economies. To counter the pressure to use protectionist policies and the policy of "ruining neighbors," the major economies were forced

to look for other ways to develop cooperation and leadership. As a result, they have converged in such a union as BRICS, economic cooperation within which allows its member countries receive certain benefits. However, these authors did not manage to formulate the main mechanisms of Russia's investment cooperation with BRICS countries, taking into account the geopolitical realities, thus, their studies represent separate instruments of investment interaction, but do not consider them in aggregate, which is very important at the moment.

### Methodology Of The Study

In order to achieve sustainable, inclusive and dynamic growth, the BRICS countries should use the opportunities for international economic cooperation, including deepening investment links within BRICS itself. More active investment cooperation within BRICS will strengthen the positions of member states in the global economy and will help solving internal social and economic problems, including those related to jobs' creation and social cohesion. Cooperation within the BRICS should stem from the potential and focus on the wide use of its members' capabilities as well as from the promotion of growth and sustainable development of their economies.

Interest in improving investment cooperation between the BRICS countries arises due to the fact that these countries together account for almost 1/3 of the territory and 1/2 of the world population as well as 1/4 of the world GDP.

Russia, Brazil, South Africa are the countries with commodity orientation of exports, while Chinese and Indian exports are more concerned with traditional manufacturing products.

Let us consider the share of BRICS in the world investment flows. As it can be seen in Table 1, the share of these countries in the total amount of FDI flows worldwide significantly increased during 2000-2015 period (in terms of attracted investment - by almost threefold, and in terms of foreign investments - by fivefold).

Table 1. The share of BRICS countries in the world investment flows, mln USD

(Source: World Investment Report 2015)

Country	FDI into the country		FDI from the country	
	2000	2015	2000	2015
Brazil	122,3	901,8	51,9	432,8
Russia	32,2	705,9	20,1	613,2
India	16,3	311,3	1,7	318,2
South Africa	62,2	267	33,2	182,4
China	193,3	1098,9	27,8	709
BRICS	426,3	3284,9	134,7	2255,6
World, total	7450	22813	7952,9	23593
Share of BRICS, %	5,7	14,3	1,7	9,5

The extent of Russia's involvement in the investment activities within BRICS is not very vast as of today (Table 2). The share of investments into Russia from the BRICS countries is 5.56%, whilst investments from Russia into other BRICS countries do not even

## RUSSIA'S INVESTMENT COOPERATION WITH BRICS COUNTRIES

exceed 1%, what is significantly lower than the investment potential of the economies of these countries. Such a situation with Russian FDI in Russia is predetermined by various shortcomings in this area. These include legislative bottlenecks and gaps in the administrative environment, insufficient government participation in promotion of sustainable development, low doing-business culture in the country, taxation imperfections, underdeveloped transportation system and logistics infrastructure.

Table 2. The shares of FDI into/from Russia to/from other BRICS countries, mln USD

(Source: the Bank of Russia)

Country	FDI to Russia, 2015	FDI from Russia, 2015
Russia, total	22 891	56 393
Brazil	0,305	22,1
India	6,457	5,7
China	1271,8	54,3
South Africa	0,02	3,2
BRICS, overall	1278,6	85,3
The share of BRICS in FDI of Russia, %	5,56	0,15

In general, the following factors affect cooperation in the field of investment. First of all, it is the fundamental difference in the level of doing business. According to the World Bank's Doing Business ratings, the most favorable business conditions as of 2016 (among the BRICS countries) were provided by China, which is ranked 11th in the world overall, while Russia ended up on the 40th place. South Africa occupied the 74th place, Brazil - the 123rd place and India became 130th. In many respects, these results demonstrated by the last three countries were caused by insufficient government participation in the field of sustainable development, corporate taxation imperfections; low doing-business culture and low quality of life. Secondly, according to the global competitiveness rating, China got the 28th place, India - 39th, Russia - 43th, South Africa - 47th and Brazil - 81th place. This leads us to the conclusion that not all BRICS countries are able to ensure high enough level of well-being for their citizens and the economy as a whole.

For Russia the most beneficial and promising interaction which can occur is the one with China, which is in fact the engine of the world economy today. The best collaborative projects between the Russian Federation and the People's Republic of China include the following:

1. Chinese car producer Great Wall Motor plans to build an automobile plant in the Tula region. The total investment volume of this project is 513 mln USD. The plant is planned to reach its full capacity in 2020.

2. China Railway Construction Corporation and China International Fund can jointly allocate more than 2 bln USD for the construction of a separate metro line in New Moscow.

3. Agreement of 2013 on cooperation in the field of insurance between Rosgosstrakh LLC and Chinese international investment company Chengtun (this company is part of the State Corporation on Control and Management of State Assets under the State Council of the People's Republic of China). This agreement will provide comprehensive insurance

protection for Chinese companies throughout the Russian Federation. This is the first project of this scale for the insurance protection of Chinese investments in Russia.

Cooperation with India could be equally beneficial and promising. The volume of accumulated Russian capital investments in Indian economy is approximately 4 bln USD, while Indian business has invested twice as much in Russian economy (almost 8 bln USD). Within the framework of the intergovernmental commission, an ad hoc working group on priority investment projects has been established and is successfully operating now. Nowadays, 20 priority projects have been selected (10 Russian and 10 Indian) in such areas as transport engineering, chemical industry, aircraft construction and pharmaceuticals. The specialized departments of the two countries together with the Russian-Indian Forum on Trade and Investment conduct a thorough selection of promising business initiatives; work on identifying and removing obstacles to the freer flow of goods, capital and services. One of them is the construction of a plant producing 100,000 tons of butyl rubber per year by SIBUR in the city of Jamnagar. The other one is AFK Sistema, developing a model of a "smart city" in India. Moreover, "Dauria Aerospace" is working on the deployment of a grouping of telecommunication apparatus "NextStar" on the geostationary orbit of the Earth. Implementation of these projects will be carried out with the support of the governments of both countries.

Another long-standing ally of the Russian Federation is Brazil, however, now the extent of Russian investment cooperation with this country remains almost insignificant. This is, first of all, due to the great distance between the two countries. Nevertheless, the most ambitious projects involving Russia and Brazil are the following:

1. As biotechnology is becoming a promising direction, the company "Biocad" has created in Brazil the subsidiary of BIOCAD BrazilPharmaceutica aimed at providing Brazil with advanced and highly effective drugs.

2. The Brazilian Embraer corporation has been proposing to launch the production of regional aircrafts in and for Russia. The key problem with this project is that this Brazilian company intends to own 51% of shares in it (just like it did in China), while Russian legislation imposes strict limitations on foreign shares of investments in aviation as one of strategic industries.

3. In 2014, KAMAZ presented a novelty - a small city bus which is the joint production by this Russian company with Brazilian Marcopolo S.A. The latter invested approximately 300 mln rubles into this project.

The distance between Russia and South Africa is much shorter than between Russia and Brazil. This may be one of the reasons why Russia's investment cooperation with South Africa has significantly increased recently: the Russian Federation became the 12th largest investor in this country by the number of projects being implemented and ended up on the 5th place in the list of investing countries.

1. Since 2005, Renova Group has been implementing a project in South Africa to develop a large manganese deposit in Kalahari (UMK). The share of Renova in this project is 49%, and the volume of investments as of mid-2013 was 350-400 mln USD. UMK, which produces 2.5 mln tons of manganese ore, is ranked the 4th in the world by the volume of manganese export.

2. Akado, a member of Renova Group, will work with South Africa's Factostep to implement a broadband Internet access projects in South Africa and Mozambique.

## RUSSIA'S INVESTMENT COOPERATION WITH BRICS COUNTRIES

3. Major cooperation projects can be implemented in the field of nuclear energy. South Africa plans to build 8 reactors with the capacity of 1.2 GW. Russia is ready to implement these projects in South Africa and to build the nuclear power plants, it has already offered South Africa financing of this construction project on preferential terms.

4. A new field of cooperation between Russia and South Africa could be military-technical cooperation. "Rosoboronexport" is working with South Africa on R&D projects and joint development of new models of military products. For example, there is a great potential for further cooperation in the fields of radar systems development and rocket engines.

However, the share of the abovementioned projects is currently not significant. BRICS participants are investing in rather limited volumes into the production facilities of other members of this alliance. This is due to the factors that have been already mentioned earlier: investors' distrust due to underdeveloped investment climate; a large number of risks and other difficulties with production on such a long distance from own headquarters etc. Another objective reason is the well-known doubts concerning intellectual property protection in all of BRICS countries. Thus, as of today, Russia can offer its partners investment cooperation opportunities in the defense sector, in a number of other high-tech industries, but it is afraid that its advanced technologies would be copied.

Development of investment interaction inside the BRICS will possibly take place if the states take certain measures. In Russia, for example, a differentiated tax regime in the Far East was discussed as a way to accelerate the process of improving the investment climate.

Another very important measure, which could be taken, is implementation of the Roadmap for Trade, Economic and Investment Cooperation BRICS countries until 2020 (BRICS Roadmap). It will stimulate other forms of foreign economic interaction, primarily foreign trade and industrial and scientific-technological cooperation.

The goals of BRICS Roadmap include:

1. Establishment of a system of mutual priorities and incentives for mutual investments and elimination of the existing barriers in this area. Another highly important point here is implementation of the government's intentions to increase the stability of the tax system by determining the size of key taxes and fixing this decision for the future. Acceleration of the implementation of new construction by reducing the number of licensing procedures (from 51 as it is today to 7 in the future) and shortening the timeframe (from 423 to 53 days) would be important as well. The customs service is facing similar serious problems: shortening of the time for issuing export and import cargo from 36 days to 5-6 days is needed, reducing the cost of clearance per container, reducing the number of documents to be filled in - from 10 documents to the maximum of 5);

2. Coordination of actions and joint efforts in mutual investment cooperation, expansion of the number of joint bilateral projects and launching multilateral investment projects - all require the removal of formal and informal protectionist barriers, especially in such strategic areas as fuel and raw materials industries;

3. Expanding the coordination of efforts in the implementation of investment projects outside the block.

Following the meeting of the Ministers of Economy and Trade of the BRICS countries, an agreement was reached in Shanghai on August 2, 2017 to establish electronic ports or the so-called logistics hubs with an accelerated procedure of customs registration and electronic document management. The roadmap on BRICS countries' cooperation in trade and services

was also agreed, cooperation in the field of electronic commerce was initiated, basic guidelines on how to solve the intellectual property problems were developed. The "Program of Cooperation in Simplifying Investment Activity between the BRICS Countries" was adopted, which will allow the countries of this association increase the transparency of investment policy and improve the efficiency of relevant administrative procedures, and also increase the level of the relevant services' provision so that to create more transparent and favorable conditions for investment policies' development and implementation.

With its well elaborated and selective strategy the oil & gas industry can provide excellent opportunities for stimulating investment in Russia. The Ministry of Energy, for example, is developing a project on radical liberalization of the rules for oil and gas operations in the Arctic. Russia could issue licenses for the local offshore fields to foreign corporations, gaining certain privileges from them in return. As of today companies with foreign capital can participate in shelf development only as minority partners of Gazprom and/or Rosneft.

The multilateral megaprojects of the BRICS countries, which assume higher level of coordination of their investment policies, include:

- Laying an underwater Internet cable, ensuring connection among the BRICS countries and with the US too. The cost of this project is estimated at 1.5 bln USD. The total length of the cable system with two fibers along the Vladivostok-Shantou-Singapore-Chennai-Mauritius-Cape Town-Fortaleza-Miami route will be more than 34,000 kilometers, and its bandwidth will be 12.8 Tb /second.

- The use of the Russian satellite navigation system GLONASS by other BRICS countries. The use of technologies based on GLONASS is of huge political and economic significance, it opens new development prospects in civil and military sectors as well. By the way, India has already expressed interest in such cooperation. This country would be interested in a large-scale project which includes sharing space for economic purposes (on the basis of the Vostochny space center which is under construction now).

Financial issues are another important area of cooperation between BRICS countries. Most of these issues are usually considered during the meetings of the finance ministers and central bank governors of the BRICS countries. The areas of cooperation include:

1. Establishment of a New Development Bank (BRICS Bank) to mobilize resources for infrastructure and sustainable development projects in the BRICS countries as well as at other emerging markets, to complement the existing efforts on the part of multilateral and regional financial institutions to support global growth and development. The initial authorized capital of the BRICS bank is 100 bln USD. The bank has approved its first loans already (by now, in the amount of at least 911 mln USD).

2. Creating a pool of conditional foreign exchange reserves to strengthen the global network of financial security and to complement the related international monetary and financial mechanisms.

3. Discussing new topics of mutual interest, which may include cooperation in the field of payment systems, in particular, supervision of payment systems and standards of financial connection. Finally, the BRICS development banks will cooperate in the framework of the Financial Forum.



# RUSSIA'S INVESTMENT COOPERATION WITH BRICS COUNTRIES

## Conclusions And Recommendations

The BRICS countries have a great potential for deepening economic cooperation, primarily in the investment sphere, where, in general, serious interest in cooperation has been already demonstrated. However, further progress in this field would depend on the real intensification of efforts in this direction, at both interstate and corporate levels.

Individual elements inherent in regional integration can also be launched within BRICS. Of particular interest in this regard are the four main instruments of investment cooperation: the BRICS Economic Cooperation Strategy, the BRICS Investment Roadmap, activities of the BRICS Bank for International Settlements, and formation of a free investment zone (Figure 1).

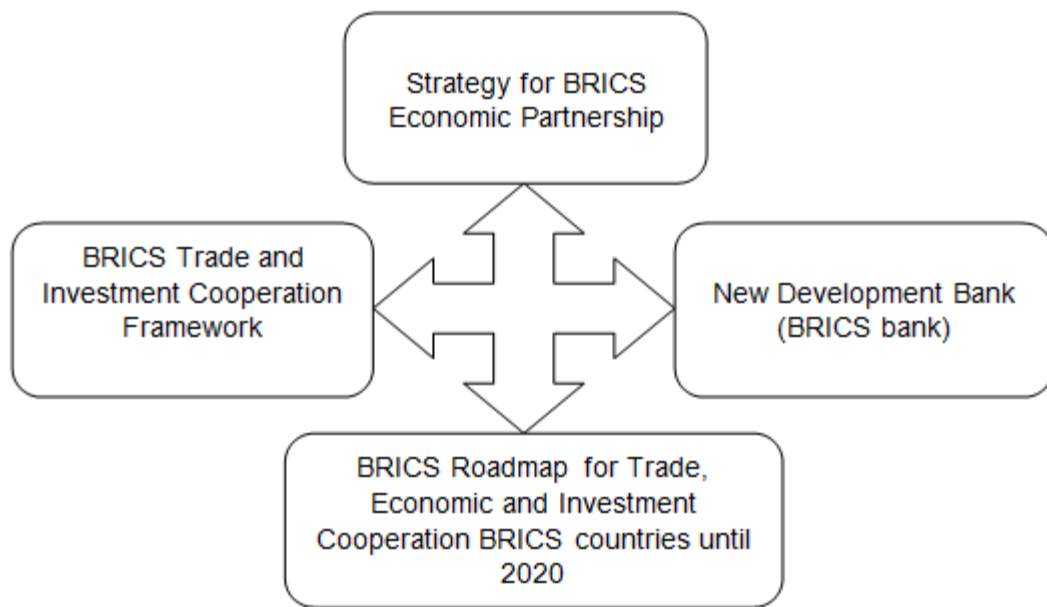


Figure 1. BRICS investment cooperation framework  
(constructed by the author)

In order to expand Russia's investment cooperation within BRICS, we should focus on achieving the following goals:

- establishment of solid trade and investment links between BRICS countries, with an emphasis on wider access to the market for goods and services from the BRICS countries and supporting complementarity, sustainable development and inclusive growth;
- simplifying and improving the effectiveness of administrative procedures to facilitate mutual trade and investment;
- increasing the transparency of the trade & investment environment in the framework of international obligations and national legislation;
- creation of more favorable conditions in the BRICS countries for the development of mutual trade with Russia and foreign direct investment with a view to diversify the industrial structure of production and exports;



- quicker and more flexible exchange of information on the policies affecting trade and investment;
- to promote the creation and development of high-tech industries corresponding to the trends and needs of economic growth in the 21st century;
- attracting investors and seeking opportunities to implement cofinanced projects in infrastructure, manufacturing and extractive industries, including projects of the regional level.

To achieve these goals, it would be necessary not only to have a dialogue on the issues of domestic investment policy and approaches to investment agreements between Russia and other BRICS countries, but also to strengthen cooperation between the organizations responsible for stimulating investment. Developing public-private partnerships may become another interesting tool for attracting additional resources and providing opportunities for both public and private sectors of the BRICS countries in order to implement technologically complex projects, including those related to infrastructure. Arranging more convenient information exchange on the emerging opportunities for trade and investment cooperation would make this information available to the business community, thus, dissemination of information on investment opportunities would become more efficient.

Further development of BRICS and its institutionalization may become quite a tangible element of stability in the world development, thus providing additional confidence in the implementation of economic policies of individual countries that are participants of this bloc. Much of economic interaction within BRICS will depend on Russia itself. Namely, on how successfully the country will solve its tasks to modernize the economy, its structural reorganization, to improve the investment climate, reform the most important state institutions etc. Interaction with the BRICS countries, under the conditions of flexible use of their capabilities, can also help Russia increase its negotiating power in international relations overall.

## References

- Avdokushin E. & Zharikov M. (2013). *The BRICS countries in the modern world economy*. Moscow: Master: Infra-M.
- Bank of Russia. Foreign trade in goods and services. Electron. Data. Moscow, 2000-2016. From: <http://www.cbr.ru/statistics>
- BRICS Roadmap for Trade, Economic and Investment Cooperation BRICS countries until 2020, from: [http://www.unido.ru/upload/files/b/brics\\_roadmap.pdf](http://www.unido.ru/upload/files/b/brics_roadmap.pdf)
- Chen M. (2006). *Does Regionalism Increase Foreign Direct Investment? An Empirical Investigation*: Department of Economics and ESIA, George Washington University Press: Washington, DC.
- Gagarina G., Moiseev N., Ryzhakova A. & Ryzhakov G. (2016). Estimation and forecast of regional competitiveness level. *Economy of Region*, 12 (4), pp. 1040-1049.
- Gorbacheva V. & Toloraya G. *BRICS: will the future be bright?* From: <http://nk.org.ua/geopolitika/briks-budet-li-budushee-svetlyim-113910>
- Karataev F. *New Development Bank in the international system coordinates*, from: <https://riss.ru/images/pdf/journal/2017/2/10.pdf>
- Kheifets B. (2013). *Road Map of Investment Cooperation of BRICS Countries*. From [https://elibrary.ru/download/elibrary\\_20261033\\_67613351.pdf](https://elibrary.ru/download/elibrary_20261033_67613351.pdf)

## RUSSIA'S INVESTMENT COOPERATION WITH BRICS COUNTRIES

- Kheifets B. (2014). *Russia and the BRICS. New Opportunities for Mutual Investments*. Moscow.: Publishing and Trading Corporation “Dashkov and Co.”
- Moiseev N., Manakhov S. & Demenko O. (2016) Boosting regional competitiveness via budgetary policy optimization. *International Journal of Applied Business and Economic Research*, 14 (10), 7315-7324.
- Nikonova V. & Toloraya G. (2014). *Russia's strategy in the BRICS: goals and tools: a collection of article*. Moscow: Peoples' Friendship University of Russia.
- Shavina E. (2015). Strengthening of innovative cooperation between Russia and the BRICS countries as a basis for further economic development in the context of aggravation of the geopolitical situation. *Economics of Education*, 1(86), 4-9.
- The official site of the Russian Federation presidency in BRICS, from <http://www.brics2015.ru>
- Timokhina O. Intra-group foreign direct investment of BRICS countries: prospects for investment cooperation. From <http://worldec.ru/content/conference/october2016/pres/Timokhina.pdf>
- Sakharov A. Investment Policy of the BRICS Countries through the lens of the Framework in the field of OECD investments, from: <https://iorj.hse.ru/data/2017/11/01/1158673095/%D0%90.%D0%93.%20%D0%A1%D0%B0%D1%85%D0%B0%D1%80%D0%BE%D0%B2.pdf>
- Strategy of economic partnership of BRICS, from: <http://static.kremlin.ru/media/events/files/ru/KT0SBHnIZjOpIuAj2AOXCnszNQA8u7HL.pdf>
- Yeati E., Stein E. & Daude C. (2003) *The FTAA and the Location of FDI*: Pacific Economic Cooperation Council. Washington, DC.
- Wouters J. & Van Kerkhoven S. (2017). Positions of the "Group of Twenty" and BRICS on trading and investments: trends and policies. *Bulletin of International Organizations*, 12 (3), 7-31.

<i>Paper submitted</i>	<i>13 January 2018</i>
<i>Paper accepted for publishing</i>	<i>22 March 2018</i>
<i>Paper published online</i>	<i>31 July 2018</i>