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Brazil, BRICS Membership And FDI: Economic Divergence And Future Prospects

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ABSTRACT
Brazil has long depended on IFDI to boost economic growth. Its membership in the BRICS grouping since 2001 has increased links with two of the world’s fastest-growing economies – China and India. However, Brazil has not been a strong economic performer within the BRICS group, attracting only a modest share of IFDI both globally and intra-group, in part because of its high cost of doing business. Brazil’s primary benefits of BRICS membership have come from increased trade, involvement in alternative governance arrangements, and broader support from China. Economic reforms, both domestically and internationally, are critical to Brazil’s continuing success in attracting IFDI.

KEYWORDS: Inward Investment; Brazil; BRICS.

ABBREVIATIONS
BRICS: Brazil, Russia, India, China, South Africa; IFDI: Inward Foreign Direct Investment; GDP: Gross Domestic Product; GFCF: Gross Fixed Capital Formation; PPPs: Public Private Partnerships; IIAs: International Investment Agreements; BIT: Bilateral Investment Treaty; MERCOSUR: Mercado Común del Sur (Southern Common Market); AfCFTA: African Continental Free Trade Area; SCO: Shanghai Cooperation Organization; SWIFT: Society for Worldwide Interbank Financial Telecommunications; ICT: Information and Communications Technology; SOEs: State-Owned Enterprises; SINOPEC: China Petroleum and Chemical Corporation; BRI: Belt and Road Initiative. OECD: Organization for Economic Cooperation and Development; ESG: Environment, Social and Governance.

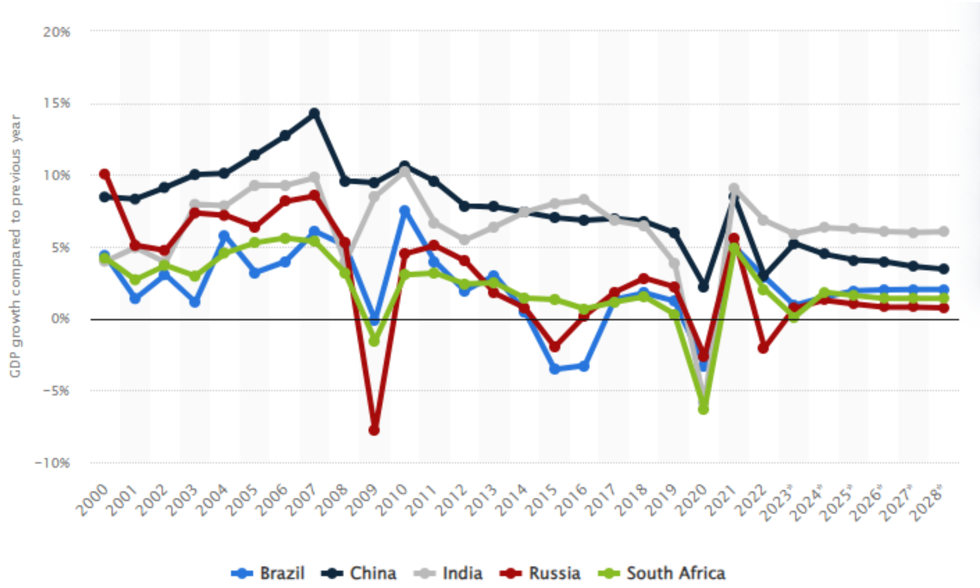
1. INTRODUCTION
Brazil is a resource-rich economy that has traditionally relied on inward investment to drive economic growth. As a founding member of the BRICS group in 2001, it has been intrinsically linked to two of the fastest-growing large economies – China and India. Over the period 2001-2024, Brazil’s economic performance has been mixed, with strong outcomes in the early years but increasingly challenging since 2010 [1,2]. While traditionally, Brazil has attracted IFDI from a number of developed economies, including the United States, Germany and the Netherlands, BRICS membership increased the likelihood of closer relations – trade and investment – with the dynamic Chinese economy. The aim of this paper is to examine Brazil’s IFDI experience within the BRICS group and whether the group has displaced or complemented outside investors. The paper offers a scoping review [3] that focuses on identifying key characteristics related to the concept of IFDI with particular application to Brazil. It offers a broad overview of the topic while identifying gaps in current knowledge. This is an important question, particularly in light of the growing divergence of economic performance within the BRICS bloc.

To answer this question, we consider first this growing economic diversity. We then turn to Brazil’s IFDI involvement, considering key sources and types of investment. We then examine intra-BRICS FDI and Brazil’s participation. BRICS membership is expected to bring benefits beyond simply FDI flows and is considered next. Brazil’s relatively poor economic conditions suggest the value of reforms and new policy initiatives, and we outline these in the light of both domestic and international economic and political challenges. Concluding thoughts are then offered.

2. DIVERGENT PERFORMANCE WITHIN THE BRICS
The BRIC group of economies dates back to 2001 when investment advisers identified Brazil, Russia, India and China as emerging economies with the potential to provide high rates of return through strong future growth. The shared characteristics of these economies are their large population and market size; in other ways, they display significant disparity with regard to their economic structures, political and market orientation, and location [4]. South Africa joined the bloc in 2011. The BRICS grouping has greatly increased its economic and political importance and influence over time. Its growing importance is the result of the rising economic significance of the bloc. Over the period 2010 to 2021, the BRICS share of global GDP increased from 18 to 26 percent.

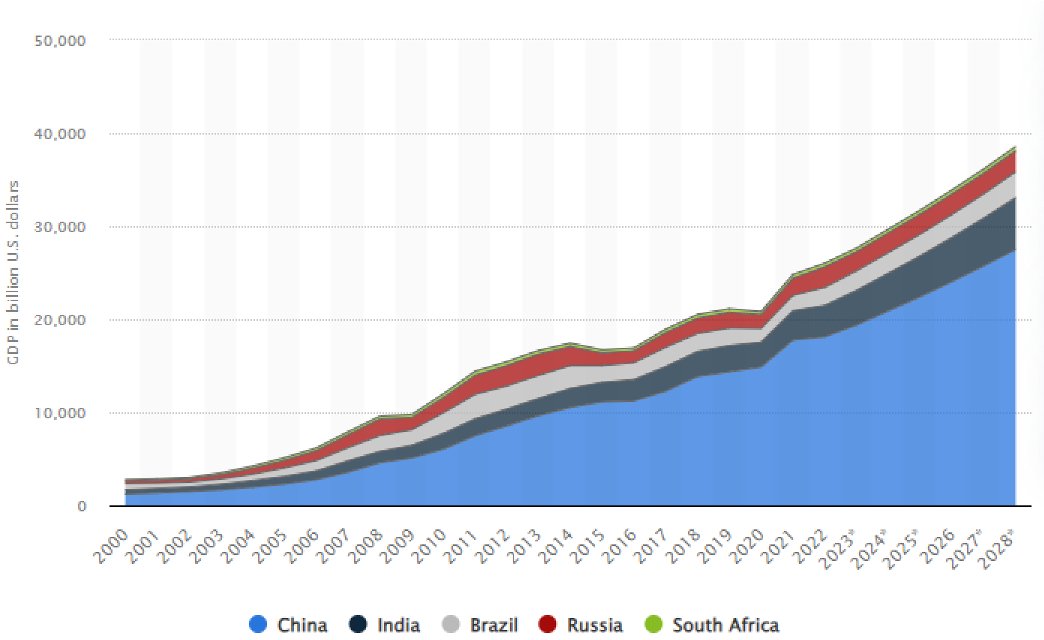
As Figure 1 shows, much of this increase was the result of strong growth, primarily within China and, more recently, India, with the former alone now accounting for more than 70 percent of BRICS GDP (Figure 2). The average GDP growth rate for the BRICS over the period 2000-2018 was almost 5 percent compared to a global average of 2.9 percent. Equally important, the BRICS, and particularly China, have begun a process of reshaping the global economy [5] through collective pressure for change in existing multilateral organizations such as the World Bank, World Trade Organization and the International Monetary Fund, as well as the creation of new competing institutions including the New Development Bank, the Asian Infrastructure Investment Bank, and the BRICS Contingent Reserve Arrangement designed to provide liquidity for member nations facing short-term balance of payments problems. Through annual summits, the BRICS group has been able to adapt its policies in response to the evolving global situation, and their economic weight now has a significant impact. Collectively, they account for 42 percent of the global population, 26 percent of the world's land mass, and 32 percent of global GDP.

Figure 1. Real GDP Growth in the BRICS 2000-2028.



Source: Statista 2024

Figure 2. GDP of the BRICS countries 2000-2028.



Source: Statista 2024

The BRICS group is a dynamic one exhibiting divergent performance and prospects. Figure 2 illustrates their divergent performance over the past two decades with growing Chinese dominance, a modest increase in India's GDP share, continuing marginal contribution of South Africa and considerable variation in the cases of Brazil and Russia. Both Brazil and Russia were badly impacted by the COVID-19 pandemic, and Russia's difficulties have increased since its invasion of Ukraine in 2022. A notable feature of both Brazil and Russia is their economic reliance on commodities (agricultural and mineral for Brazil and energy-related for Russia) when compared with the more diversified economies of China and India.

On several measures, Brazil has been a poor performer within the BRICS, and it is unclear to what extent it has benefitted from inclusion. The country's dependence on resources is reflected in economic fluctuations. As Figure 1 shows, Brazil enjoyed strong growth in the first decade of the present century with a strong commodity price cycle and better economic management. The adverse impacts of the Global Financial Crisis and recession in 2010 saw a decline in growth and a rise in inflation, revealing fundamental structural weaknesses. These were compounded in 2020 with the impact of COVID-19. Brazil's weaknesses are well documented and include a complex and cumbersome tax system, poor infrastructure, low productivity, persistent inflation and a high-cost operating environment [6]. These features also negatively impact inward FDI.

Divergence within the BRICS grouping shows few signs of declining. Its largely informal nature, absence of unifying ideological values or clear vision of the evolving global order enable the persistence of divergence [7]. Plans for expanded membership, which include countries such as Argentina, Saudi Arabia, Iran and Turkey, are only likely to exacerbate differences. Economic diversity has unclear implications for IFDI. On the one hand, differences in market size and resource availability can encourage market-seeking investments to gain access to consumers. On the other hand, the right types of diversity – differences in wages, skills and cost levels, access to technology and efficient supply chains – can prompt efficiency-seeking IFDI. It is the latter that is likely to bring the most significant economic benefits to the host economy [8].

3. BRAZIL AND IFDI

Brazil is heavily dependent on inward investment, which contributes to productivity growth, easing government deficits (through privatizations, for example), and balance of payments constraints, with IFDI typically equating to 2 to 3 percent of Brazil's GDP. In 2021, Brazil's ratio of IFDI stock to GDP was 37 percent, significantly above the BRICS average of 27 percent. IFDI is a significant factor in capital formation with IFDI typically more than 10 percent of GFCF, the highest level of all the BRICS nations.

Brazil, the largest recipient of IFDI in Latin America, offers several advantages to international investors, including a market of over 210 million, a wide range of raw materials, easy access to other Latin American markets, and a diversified economy. Offsetting these are a high and complex taxation system, low productivity levels, widespread corruption, political risk and a high-cost, rigid labor market. The Economist Intelligence Unit ranked Brazil 51 out of 82 countries on their 2021 Business Environment Ranking. This is the result of both poor economic freedom and political uncertainty. As a result, in 2010-14, Brazil received only 3.3 percent of global IFDI; in 2015-19, its share increased to 3.8 percent, reaching 4.4 percent in 2020-22.

Like many emerging economies, FDI inflows to Brazil are positively related to market size, economic growth rate, economic openness, and political stability [9-11]. Such investment has the potential to bring significant economic benefits. IFDI can improve international trade links, increase competition in previously sheltered sectors, and generate technological spillovers. The evidence for Brazil suggests that foreign affiliates do possess higher levels of complex capabilities [12]. Brazil has benefitted from upgrading through privatization, and FDI has improved corporate governance in an economy hampered by high levels of corruption. Indeed, it appears that modest levels of corruption may actually facilitate IFDI in Brazil [13]. However, the potential benefits of IFDI do not follow automatically: their achievement requires supportive policies, with investors seeking an enabling environment with economic and political stability, strong governance, and suitable infrastructure. Like other emerging economies, Brazil offers targeted regional and local incentives to overseas investors. Common policies include tax relief, grants, and loans. The efficient design of such policies is not easy, particularly within a federated economy such as Brazil, with 27 separate states and more than 5000 distinct localities, where incentive competition can waste public resources. This occurred within Brazil's automobile sector [14].

Brazil attracts investment from a number of countries, primarily the United States, the Netherlands, Spain, France and Canada. The United States is Brazil's most important investment source, in recent years investing more than five times as much as China in Brazil. Even then, Brazil's share of total U.S. FDI is only around 1 percent. There is a potential to increase U.S. FDI with Brazil planning to ease access to PPPs in a number of sectors, including highways, railroads, ports and airports. Ironically, these are sectors where China is considerably stronger than the United States and could also stimulate intra-BRICS FDI. U.S. investors would like to see domestic reforms to ease the costs of doing business. These would include reform of Brazil's tax system and, in particular, the overlap between taxes at the different levels: federal, state and local, an easing of foreign exchange controls, and reductions in the administrative costs of establishing and running a business [15].

While investment has historically targeted manufacturing, more recently, the service sector has experienced an increased share. In addition, a large-scale privatization program created significant investment opportunities, bringing investment into motor vehicles, chemicals, and commerce. However, levels of IFDI are sensitive to economic and political change [16], and Brazil has experienced turbulence in both. Economically, it is sensitive to commodity price cycles and appears to have suffered a significant decline in FDI as a result of COVID-19, something that was not experienced by other BRICS members [17]. Dependence on US FDI is reflected in the finding that Brazilian productivity growth encourages IFDI, while US productivity growth has the opposite effect [18].

Politically, Brazil has experienced radical swings since the election of Dilma Rousseff, the country's first female president, in 2010. Despite civil unrest over rising costs and poor public services, Rousseff won a second term in 2014. The Petrobras corruption scandal in 2015 saw the removal of Rousseff in 2016 and a period of austerity and reform. In 2018, former president Lula de Silva was imprisoned for corruption, and the far-right politician Jair Bolsonaro was elected as leader. Following a long and costly COVID-19 campaign, Lula returned as President in 2022 with the task of balancing the fiscal budget and public debt and reforming the taxation system.

Irrespective of the level of IFDI Brazil receives, the benefits generated are dependent on the type of such investment. The literature makes a broad distinction between market-seeking and efficiency-seeking FDI [19]. Market-seeking FDI is attracted by the size and features of a domestic market, often prompted by the need to overcome barriers to trade. It can be beneficial to the host economy if previously sheltered sectors are forced to become more competitive, but there is a danger that foreign investors will simply share in excess rents while lobbying for continued protection. Brazil's automotive, chemicals and telecommunications industries have a history of protection. Efficiency-seeking investment focuses on factor and cost differences between locations, creating opportunities for cost and productivity efficiencies. Such investments are often export-focused. In general, efficiency-seeking FDI offers more sizable host country benefits, encouraging local firms to upgrade (as suppliers or partners), adopt more advanced management approaches and technology, and meet the demands of overseas consumers. The majority of IFDI Brazil attracts market-seeking, and while it would benefit from a greater share of efficiency-seeking projects, these face considerable impediments. The regulatory barriers that impede competition push up costs (*Custo Brazil*), legal delays frustrate the resolution of disputes, and Brazil's relatively low level of openness limits the development of global supply chains. As a result, Brazilian firms are focused on the early or forward-linkage stages of value chains, mainly as suppliers of raw materials. This limits exposure to foreign technology and learning opportunities. Policies such as the 2011 Plano Brazil Maior attempted to articulate more effective industrial policy efforts but have not been successful in altering Brazil's IFDI composition.

4. INTRA-BRICS FDI

Strong growth for the BRICS group over the past two decades has been associated with growing levels of FDI. IFDI is both attracted by high growth rates and a contributor to such growth. FDI inflows to the BRICS quadrupled over the past two decades, being particularly strong in the period 2001 to 2011 (see Figure 3).

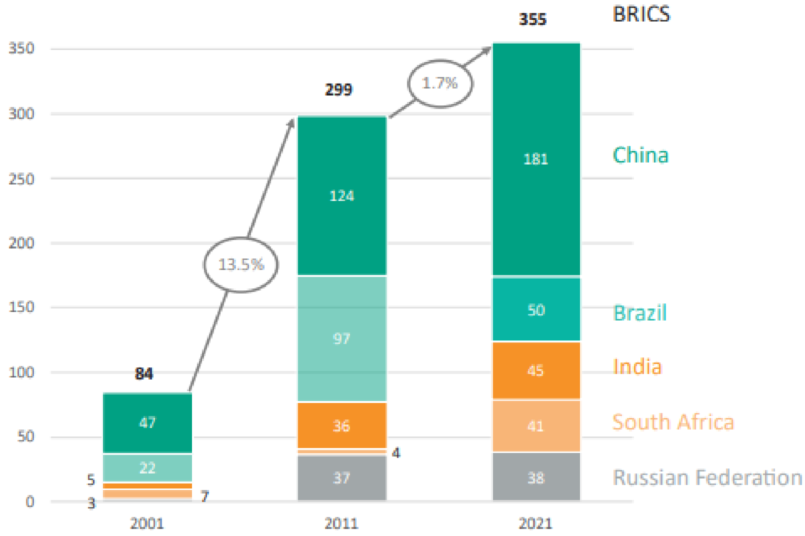
As Figure 3 shows, IFDI growth was particularly significant in the first decade, with the BRICS enjoying a 13.5 percent compound growth rate, almost double the global rate. The second decade experienced a marked slowdown, a global experience [20]. The level of risk faced by the BRICS increased in this period with growing inflation, trade disputes (China), commodity price fluctuations (Brazil and Russia), conflict (Russia) and the COVID-19 pandemic. In recent years, China and India have enjoyed the strongest IFDI performance, with Brazil and Russia, in particular, struggling to attract foreign interest. Trade within the BRICS bloc has also increased at an above-average rate over the period, facilitating intra-bloc FDI.

The majority of FDI going to BRICS economies comes from outside the bloc, with the United States, United Kingdom, Japan, Germany and the Netherlands the leading investors. However, China's economic growth and internationalization have seen it emerge as a major source of funds. China's growing involvement has been part of the growth of intra-BRICS FDI, particularly in the period since 2010 [21].

As Table 1 illustrates, intra-BRICS FDI stock increased six-fold between 2010 and 2020, increasing from 1.3 percent to 4.7 percent of total BRICS FDI. Much of the growth was the result of both investment into and out of China. By 2020, China accounted for more than 90 percent of intra-BRICS investment stock. Sharp relative declines were experienced by Russia and South Africa, with Brazil experiencing a modest decline in relative share. Table 2 shows that since 2010, the BRICS group has, on average, attracted about one-fifth of global FDI flows, enjoying a sharp upturn in inflows after the global pandemic. Within this share, Brazil has attracted just over one-fifth of IFDI but has not enjoyed the sharp recovery evident among other group members. Brazil's IFDI inflows were strongest in the period 2010-2014 and have declined since then.

An attraction of intra-BRICS FDI is its focus on priority areas of investment, such as infrastructure. High levels of internal trade and political interactions provide insights into critical investment needs. Regular group summits enable supportive policy initiatives, for example, in areas such as PPPs, which can be supported by New Development Bank funding. All the BRICS economies rely on IFDI, and this dependence has increased over time, with the average share of IFDI as a percentage of GDP increasing from 20 percent in 2011 to 27 percent in 2021 [22]. Brazil, with an FDI stock/GDP ratio of 37 percent, is one of the highest in the group.

Figure 3. FDI inflows to the BRICS, 2001-2021, and compound annual growth rate (billions of dollars and percent).



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: South Africa is included in the 2001 figure although it joined the BRICS in 2011.

Table 1. Intra-BRICS inward FDI stocks US$ millions and (percentage).

Country	2010	2015	2020
Brazil	791 (2.9%)	2 299 (3.0%)	1 935 (1.2%)
China	14 512 (53.0%)	64 430 (85.6%)	151 439 (90.7%)
India	622 (2.3%)	1 218 (1.6%)	1 795 (1.0%)
Russia	4 187 (15.3%)	3 440 (4.6%)	4 819 (2.9%)
South Africa	7 281 (26.5%)	3 978 (5.2%)	6 999 (4.2%)
Total	**27 393 (100%)**	**75 365 (100%)**	**166 987 (100.0%)**

Source: UNCTAD (2023) *BRICS Investment Report* UNCTAD, Geneva

Table 2. Brazil, BRICS and Global FDI 2010-2022 (%).

	2010-2022	2010-2014	2015-2019	2020-2022
BRICS IFDI as % of global IFDI	20.1	18.5	15.0	23.4
Brazil's IFDI as % of BRICS IFDI	22.2	28.8	25.1	18.9
Brazil's IFDI as % of global IFDI	4.5	5.3	3.8	4.4

Source: UNCTAD FDI/MNE database

Policy coordination among the BRICS members has helped create a more favorable environment for FDI. In contrast to global trends, the BRICS nations have introduced favorable investment measures, particularly since 2018. Of the 274 international investment measures introduced by the BRICS between 2011 and 2021, 184 (67 percent) were favorable. Brazil introduced 31 measures, of which 74 percent were favorable [22]. Brazil now allows full foreign ownership in airlines and foreign involvement in electricity, airport operations and renewable energy. Barriers to foreign exchange remittance have also been simplified.

International agreements are also being reviewed to better enable IFDI. Within the BRICS group, Brazil has the fewest IIAs in operation but is attempting to reform some of its older-style agreements, introducing a new BIT model emphasizing investment promotion. The revised model tackles some of Brazil's underlying institutional problems, such as governance, dispute arbitration and procedural transparency.

5. OTHER BENEFITS OF BRICS MEMBERSHIP

While the BRICS group has performed well in terms of economic growth and the attraction of FDI, with Brazil gaining a reasonable share, membership also brings other benefits. One is trade. China is now Brazil's largest trading partner, with Brazil, unlike many other countries, enjoying a trade surplus with China. Brazil's primary exports to China are iron ore, soybeans and crude petroleum. This reflects Brazil's position as a producer of raw materials; indeed, more than three-quarters of China's imports from other BRICS members are energy, agricultural and mining products. In contrast, China's exports to Brazil are semiconductors, office machines and smartphones. Trade is associated with FDI. Market servicing through exports can be replaced by IFDI (market-seeking), where markets are large, growing rapidly, or are particularly lucrative. Efficiency-seeking FDI is linked with trade in intermediate products and tasks. Trade patterns within the BRICS, however, suggest that Brazil, Russia and South Africa appear to be firmly entrenched as raw material providers, with China, and increasingly India, undertaking the majority of manufacturing value-added.

Brazil's trade with other BRICS members reinforces its forward position in global value chains. India is now Brazil's fifth-largest trading partner, importing crude petroleum, soybeans, oil and gold. In turn, India exports refined petroleum, pesticides and medicines to Brazil. Russia trades fertilizers to Brazil in exchange for coffee and meat products. Brazil is also South Africa's third-largest trading partner. Outside the BRICS, the United States is Brazil's second-largest trading partner and a long-term goal for both sides is an eventual free trade agreement as Brazil still retains high tariff barriers. However, as a founding member of MERCOSUR, Brazil is constrained in its negotiation of tariff reductions. Despite its geographical location, Brazil's trading pattern is heavily focused on Asia, particularly China and India, but it does offer potential links between the BRICS and other MERCOSUR members [23].

Trade integration within the BRICS has progressed faster than FDI and has the potential to deepen if the planned increase of six new members occurs [24]. In fact, the wider group would have significantly greater economic influence with 46 percent of the global population, a 43 percent share of daily oil production, and 29 percent of global GDP (larger than the G7 share). In addition, the diversity of the group of proposed new members (Argentia, Egypt, Ethiopia, Iran, Saudi Arabia and UAE) would provide easier access to other trading blocs such as AfCFTA and SCO. But this very diversity may also be problematic [25]. For example, Saudi Arabia is a wealthy economy with significant investment funds but faces a vulnerable future in the face of decarbonization. It seems to be seeking trade diversification and reduced reliance on energy commodities. Its most attractive potential partner within the BRICS is China. Other new members – Egypt and Iran – have experienced considerable economic volatility and political isolation. They appear to be seeking legitimacy from affiliation with the other BRICS. Argentina is a weak economic performer with fluctuating growth, high inflation, rising debt and a weak currency. It is desperately in need of new investment sources and is likely to compete with Brazil for China's attention. Their inclusion does little for the cohesion of the BRICS, with greater diversity in income levels, ideological perspectives and development lines. Worryingly, perhaps their unifying feature is compatibility with the growing nationalism and authoritarianism increasingly evident within the original BRIC members (certainly for Brazil under Bolsonaro) in recent years.

A second benefit of BRICS membership to Brazil is participation in the alternative global economic framework that China appears to be pursuing with the development of alternative institutional arrangements in finance and trade [26]. Existing mechanisms, heavily influenced by Western design and control, are not seen by China as favoring developing economies, and it has been vigorous in its pursuit of alternatives. Such developments would be challenging for Brazil as it finds itself pulled into a contest for geoeconomic hegemony between China and the United States, given its considerable dependence on both. However, within this broad framework, there would be opportunities for Brazil as alternatives to the SWIFT international payments system are adopted, non-dollar and digital reserves are accumulated, and new payment systems such as BRICS pay are legitimized.

Third, Brazil benefits from the economic cooperation that China is pursuing within the BRICS group. This includes significant common currency reserves, assistance in global crises and recovery, and the adoption of electronic commerce. Recently signed agreements with China will see Brazil receive assistance in the further development of its aerospace sector and much-needed infrastructure investment [22].

6. REFORM AND POLICY IMPLICATIONS

Brazil's ability to continue to attract IFDI and to increase this will depend on economic reform, both domestically and in terms of international relationships.

Domestically, the country faces a number of difficulties that must be addressed within challenging economic and political settings. The recently elected President inherits an economy severely damaged by the COVID-19 pandemic. Economic growth has been slow, slower than other BRICS economies, and shows no signs of swift recovery. The result has been rising levels of poverty and inequality, with the latter already one of the highest in the world despite initiatives to improve educational access. While the country's unemployment rate has fallen slightly, it remains close to 8 percent in mid-2023. Slow economic growth and unemployment are coupled with an inflation rate of more than 5 percent and declining currency value, all of which constrain radical economic reform.

While international investors would certainly benefit from greater economic stabilization [27], the current structure of Brazil's economy is not conducive to efficiency-seeking IFDI, potentially the most beneficial form of FDI. Since the mid-1980s, Brazil and several other Latin American economies have been undergoing structural change, sometimes referred to as premature deindustrialization [28]. While almost all economies undergo a transformation, usually from agricultural dependence through manufacturing to a service-based economy, this generally occurs with relatively high and rising incomes. When this change occurs at much lower standards of living or before each stage reaches maturity, it is seen as premature. This appears to be the case for Brazil. In 1985, value added in manufacturing represented 35 percent of Brazil's GDP; by 2022, this share had fallen to just 11 percent, with the fastest decline occurring between 1985 and 1995, at far lower income levels than would have been expected. Particularly worrying is the finding that Brazil's sharpest loss was within its labor-intensive manufacturing sector, generally regarded as a key stepping stone in the economic upgrading process. The result has been a rise in the share of primary goods in national GDP.

Such deindustrialization would be less of a concern if the employment shift favored high-technology services. The service sector in Brazil does account for a significant share of GDP (59% in 2022), and more than three-quarters of formal employment, but the majority of this is in low-productivity services such as retail and personal services, which expanded as a result of cash transfers provided during commodity booms. Foreign trade in services reflects this with services accounting for only 15 percent of Brazil's total exports and just 5.45 percent of GDP, well below the global average. Brazil, like other Latin American economies, has been slow to adopt new technologies such as ICT; the digital sector in Brazil accounts for only 3 percent of GDP, half that of the United States [28]. Brazil has experienced a reversal of the widely observed industrialization process, with primary products increasing as a share of total exports from 28 percent in 1990 to 56 percent in 2021, while the shares of both medium- and low-technology sectors fell markedly.

Also pressing are environmental concerns. Brazil is responsible for more than half the Amazon rainforest, the world's premier tropical forest. However, the previous government permitted increases in mining and deforestation which have badly damaged Brazil's international reputation [29], although the present administration has pledged to reverse this. Brazil is developing low-carbon agriculture, but this needs to be combined with better land and water management as well as disaster mitigation: in effect, the country needs a long-term climate strategy. Currently, the country is falling well short of its agreed greenhouse gas targets.

Attempts to reverse Brazil's declining economic position are occurring within a challenging political context. The incumbent President won the election with just 50.1 percent of the vote and many opposition politicians retain influential congress and senate positions. The ruling party does not have a majority in Congress, and this will frustrate policy approval.

Internationally, there are similar challenges which, if tackled, could raise investor confidence. Under the previous administration regional relations, including within MERCOSUR, were damaged. While relations with ideologically similar governments, including (at the time) the United States, Poland and Saudi Arabia, were strengthened, this came at the cost of declining interest in neighboring economies. Even within the BRICS grouping, several missteps were apparent, particularly the then Chancellor's anti-Chinese rhetoric. Lula is likely to seek to repair this damage and has improved relations with Argentina but still appears somewhat out of step with China's view on the long-term role of BRICS, whether it serves as a vehicle for improving the position of developing countries or in providing an alternative to the current global order.

International reforms must also occur within a challenging context. Brazil is not experiencing a commodity boom, and with a depreciating currency, rising energy costs, and the continuing costs of a harmful COVID-19 strategy, it may lack the resources to implement many of the measures. Brazil's position in an increasingly polarized global economy is also uncertain. Its critical dependence on both China and the United States creates policy constraints that will have to be managed extremely cautiously.

BRICS membership offers advantages to Brazil in investment facilitation since this is an area that the group has focused on post-COVID. In addition to the general trend towards a more liberal investment regime (see Section 4), the BRICS annual summits have strengthened cooperation on investment facilitation. These initiatives include the 2017 Outlines for BRICS Investment Facilitation, which identified investment promotion best practices in member countries. The BRICS MoU Trade and Investment Promotion initiative in 2019 strengthened links between national investment promotion agencies and the 2022 Initiative on Trade and Investment for Sustainable Development, which highlighted areas of emerging policy concern, including digital governance, regional supply chains and critical infrastructure needs. At the national level, Brazil has strengthened relations between its investment promotion agency and those of both China and India, leading sources of FDI within the BRICS arrangement.

7. CONCLUSIONS

Brazil is an economy that depends significantly on IFDI for its economic development. Historically, such investment has been attracted to the primary sector and manufacturing. More recently, manufacturing has experienced a decline, and economic and political uncertainty have frustrated efforts to maintain FDI levels. Brazil's key advantage in the past two decades appears to have been its founding membership of the BRICS group of emerging markets. Aligning with large and strongly growing economies such as China and India offers markets, resources and economic resilience. However, our discussion suggests that while Brazilian IFDI has benefitted from BRICS involvement, the advantages have been more indirect than direct. That is, for Brazil, extra-BRICS IFDI, particularly US-sourced investment, is more significant than intra-BRICS FDI. While Brazil attracts the largest share of within-group FDI, this is only 0.34 percent of FDI destinations. Although

China is the source of more than three-quarters of intra-bloc IFDI, this accounts for only 1.5 percent of total Chinese outward investment [30].

Despite the importance of Chinese investment to Brazil, the characteristics of this investment are not ideal. Chinese investment in Brazil is highly concentrated, with 73 percent targeting the energy sector. Such investments are generally brownfield (foreign investors acquire existing assets) and are undertaken by large Chinese SOEs such as SINOPEC. Such resource-seeking investments do not offer the level of positive spillovers that are associated with efficiency-seeking investments. China's pattern of investment in Brazil (as well as Russia) is not typical of the broader pattern of Chinese internationalization, with only India able to attract significant manufacturing investment [30].

Brazil and other BRICS members are also adversely affected by China's asymmetric domination of BRICS economic relations in both trade and investment. China's power is clear, and while the BRICS play a significant role in China's challenge to the existing world order, China's FDI focus is strongly oriented to the BRI, which emphasizes links with neighboring regions, including Southeast Asia and Eurasia. Future expansion of the BRI appears to favor resource-rich countries of Africa, with resource-seeking in Brazil favoring trade rather than investment relations.

However, the indirect benefits of BRICS membership to Brazil have been significant. It has benefitted from the high growth rate of the bloc as a whole, from its growing influence in multilateral institutions, and from 'diversionary' investment as Russia has faced widespread sanctions. US investment, particularly in mining and energy, has also shown renewed interest in Brazil as global uncertainty has prompted strategic consideration of near-shoring and 'friend'-shoring of investment.

In the longer term Brazil's proposed accession to the OECD provides strong incentives for reform. Since its 2022 invitation to initiate the accession process, Brazil has been reviewing the necessary structural and legal reforms it needs to undertake. The OECD has set out a number of priority policy areas, and these include areas we have identified – open trade and investment, structural reforms, governance, climate and infrastructure, for example. Brazil would benefit from OECD membership in several ways. Its manufacturing and service sectors would be required to meet standards set by the most advanced economies. International investors would enjoy greater transparency enabling them to better meet their investor's ESG expectations. OECD membership would also increase fiscal and monetary discipline, contributing to economic stability.

Fundamental to Brazil's ability to attract additional FDI, and in particular investment in manufacturing, is the need for radical policy reform to reduce the high costs and inefficiencies of doing business in Brazil. Such reforms will not be easy to undertake in the light of Brazil's domestic economic woes and troubled international relations.

CONFLICT OF INTEREST

None.

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