EU-BRICS TRADE RELATIONS: TRENDS AND PERSPECTIVES

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Abstract

This paper analyses EU-BRICS trade and investment relations, highlighting significant trends, sectoral dependencies, and mutual economic implications. Using quantitative data from 2013 to 2023 and qualitative policy analysis, the research reveals challenges posed by dependency on BRICS economies and EU strategies for trade diversification. The paper identifies several key trends in EU-BRICS trade and investment relations: a chronic EU trade deficit with BRICS driven by sectoral dependencies in machinery and energy, alongside EU efforts to diversify energy sources, growing FDI flows into BRICS economies, and evolving geopolitical dynamics that shape mutual economic interdependence.

Key words: EU-BRICS trade, foreign direct investment, trade deficit, energy diversification, economic resilience

JEL: F13, F15, F21, F50

Introduction

The trade and investment relationship between the EU and the BRICS countries has become increasingly important in recent years. The BRICS group, consisting of Brazil, Russia, India, China and South Africa, has emerged as a significant player in the global economy, accounting for a significant share of the world's population, GDP, and trade (Duggan et al., 2021). As the global economic landscape continues to evolve, understanding the trends and prospects of EU-BRICS trade and investment relations is crucial for researchers, policymakers and business leaders. The trade between the EU and BRICS encompasses a wide range of sectors, and has shown resilience despite the global economic volatility (Jones & Martin, 2020).

The present research paper aims to examine the current state of EU-BRICS trade and investment relations, identify key trends, and explore the potential for future cooperation and growth. The analysis explores three primary questions: 1) What are the recent trends in EU-BRICS trade? 2) What opportunities and threats do these trends pose for the EU? 3) How do investments shape and influence the economic interdependence between these two economic blocs? Addressing these questions will provide a foundation for understanding the broader implications of the EU-BRICS trade relationship.

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This paper employs a combination of qualitative and quantitative methods, including statistical data analysis (with data from credible databases, such as the European Commission and Eurostat), and a review of the theoretical framework and existing literature concerning to the international trade theories and EU-BRICS trade and investment relations.

Literature Review

The economic relationship between the EU and BRICS countries has been the focus of numerous studies, which examine both the potential for cooperation and the challenges arising from diverse economic systems and trade policies. Theoretically, trade relations between emerging economies and established markets such as the EU can be understood through traditional models of comparative advantage and the newer frameworks of economic integration and globalization (Krugman, 2021). According to classical theories, emerging markets like those within BRICS have comparative advantages in resource-intensive sectors, while the EU has a competitive edge in technology and high-value goods (Ricardo, 1817). These frameworks have evolved, emphasizing not only resource and product specialization but also the complexities introduced by regulatory differences and geopolitical considerations (Bhagwati, 2019).

Nori and Mishra (2021) have applied a gravity model to quantify EU-BRICS trade flows, identifying key determinants such as economic size, market proximity, and recent geopolitical shifts. They find that EU remains a primary trading partner for BRICS, contributing substantially to both exports and imports, with a diversified sectoral focus that aligns with BRICS' comparative advantages in areas like manufacturing, minerals, and agriculture. Despite trade growth, they highlight challenges due to Brexit and the global financial crisis, which have affected the stability of trade flows (Nori & Mishra, 2021).

In addition to trade flows, foreign direct investment (FDI) has emerged as a significant factor in EU-BRICS economic relations. The literature suggests that investment from the EU into BRICS countries often targets sectors like infrastructure, manufacturing, and finance, contributing to the economic development of these countries while providing EU firms with new market opportunities (Dunning, 2018). Conversely, investment from BRICS into the EU is growing, particularly in technology and strategic industries, raising concerns about the influence of foreign ownership in critical sectors.

Hunya and Stöllinger (2009) provide a comprehensive analysis of FDI flows between the EU and BRICS, highlighting the EU as a leading investor in BRICS countries, especially in Brazil and Russia. They note that EU investments in BRICS are largely in manufacturing and services, sectors well-aligned with BRICS' development goals. Hunya and Stöllinger observe that FDI resilience in BRICS markets contrasts with other regions, suggesting that BRICS' large domestic markets offer strong incentives for EU investments even amid economic downturns (Hunya & Stöllinger, 2009).

The potential outcomes of further BRICS' integration could have significant ramifications for the EU's economic and geopolitical standing. For example, Nach and Ncwadi (2024) discuss the potential and challenges of BRICS economic integration, noting that despite strong economic growth and increasing geopolitical power, BRICS nations face substantial policy coordination challenges due to structural and economic differences (Nach & Ncwadi, 2024). They argue that initiatives like the New Development Bank aim to promote greater financial cooperation and stability, underscoring BRICS' commitment to reshaping the global economic landscape toward a more multipolar order.

EU-BRICS trade

Trade volumes and balance in the period 2013 – 2023

The EU-BRICS trade balance has shown a consistent deficit for the EU, driven by the high import demand for machinery, mineral products, and miscellaneous manufactured goods from BRICS countries, primarily China and Russia. As of 2023, the total trade volume between the EU and BRICS amounted to €1,078.6 billion, with imports at €699.5 billion and exports at €379.1 billion. This resulted in a trade deficit of €320.3 billion, underscoring the EU's dependency on BRICS for certain high-demand products (European Commission, 2024).

Table 1. EU-BRICS Trade Balance (2013 – 2023)

Year	Imports (€ million)	Exports (€ million)	Balance (€ million)	Total Trade (€ million)
2013	510,184	338,417	-171,766	848,601
2018	587,950	363,426	-224,524	951,376
2023	699,484	379,147	-320,336	1,078,631

Source: European Commission, 2024

The data indicates a growing trade imbalance, especially from 2020 onward, primarily due to increased imports from China in machinery and technology-related sectors and from Russia in mineral fuels.

Sectoral Analysis of trade flows in 2023

In 2023 the EU imports from BRICS were heavily concentrated in machinery and transport equipment, mineral products, and manufactured goods. Machinery and transport equipment, representing €322.7 billion, constituted 46.1% of total imports from BRICS. In contrast, EU exports to BRICS were led by chemicals and machinery, indicating an export focus on high-value-added products.

Table 2. Trade between EU and BRICS by sector, 2023

Sector	Imports (€ million)	% of Imports	Exports (€ million)	% of Exports
Machinery and Transport Equipment	322,683	46.1%	175,702	46.3%
Chemicals and Related Products	61,110	8.7%	78,957	20.8%
Manufactured Goods	85,209	12.2%	32,346	8.5%
Mineral Fuels, Lubricants	54,996	7.9%	5,005	1.3%
Miscellaneous Manufactured Articles	116,464	16.7%	43,021	11.4%

Source: European Commission, 2024

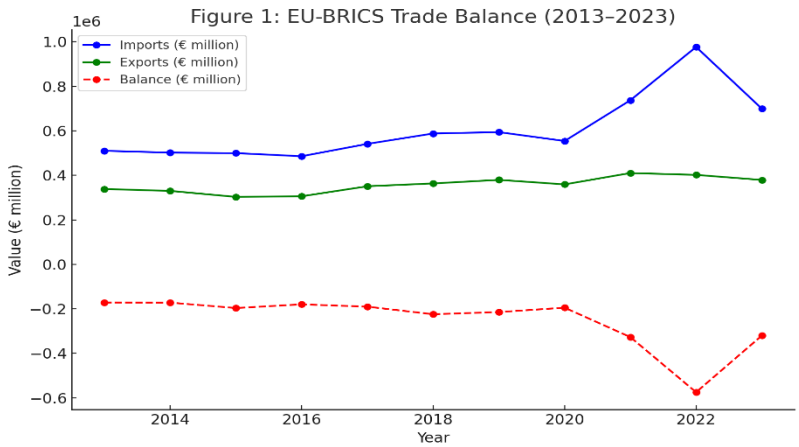
The concentration of imports in machinery reflects the EU's dependency on BRICS countries, especially China, for electronics and other technology-driven products.

The trade in the period 2020 – 2023

Between 2020 and 2023, the EU experienced considerable volatility in trade with BRICS, particularly due to changes in global supply chains and policy-driven shifts in energy trade. Import growth was especially strong in machinery and mineral products, with an increase in high-demand sectors such as technology. The sharp decline in mineral fuel imports in 2023 highlights the EU's commitment to diversifying its energy sources, reducing reliance on BRICS, especially Russian exports.

The export was more stable, led by chemicals and pharmaceuticals, where growth has remained positive. This sector's resilience highlights the EU's ability to maintain competitive exports in high-value segments despite the global economic shifts.

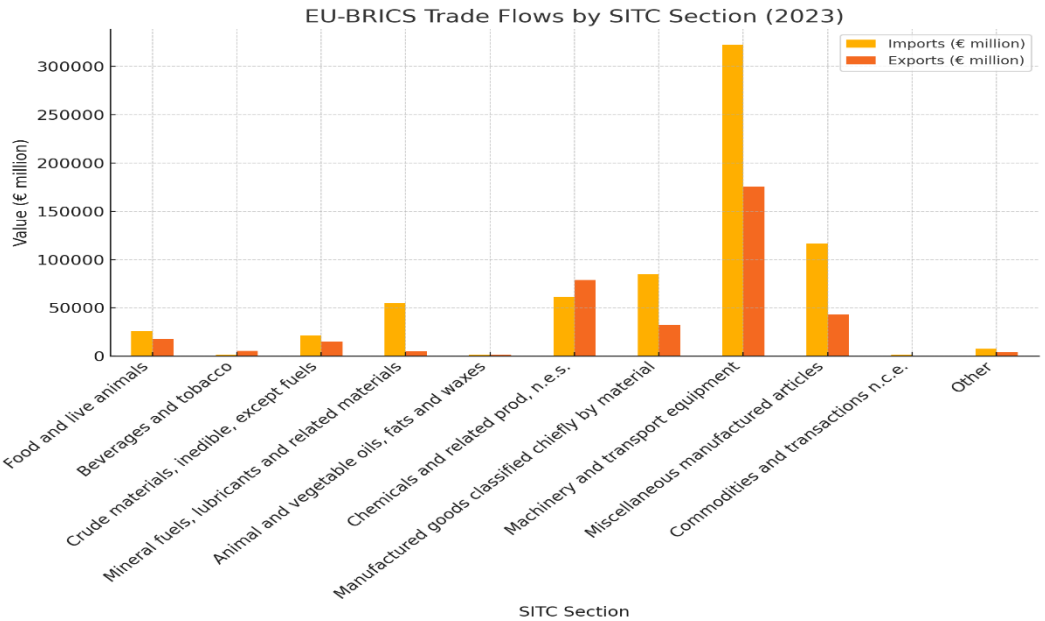
Figure 1 illustrates the persistent trade deficit, which widened in recent years, particularly in 2021 and 2022, before a partial recovery in 2023.



Source: European Commission, 2024

Figure 1. Title EU-BRICS trade balance in the period 2013-2023

Figure 2 shows the EU-BRICS trade flows by SITC section for 2023. This sectoral breakdown provides insights into the composition of EU-BRICS trade, with a notable focus on machinery and industrial goods, alongside energy and chemicals.



Source: European Commission, 2024

Figure 2. EU- Sectoral contributions to imports and exports in 2023

It leads to the following conclusions:

- „Machinery and Transport Equipment“ dominates both imports and exports, accounting for the largest trade values (€322,683 million in imports and €175,702 million in exports), reflecting significant industrial and technological exchange.
- „Miscellaneous Manufactured Articles“ and „Chemicals and Related Products“ are also prominent, indicating diverse industrial goods and chemical products traded between the EU and BRICS countries.
- „Mineral Fuels, Lubricants, and Related Materials“ accounts strongly for imports (€54,996 million), emphasizing the EU's reliance on BRICS for energy resources, though exports in this category remain low.
- Other sectors, such as „Food and Live Animals“ and „Crude Materials, Inedible Except Fuels“, show moderate trade volumes but reflect important contributions to agricultural and raw materials trade.

This data highlights the dominant role of machinery and transport equipment in EU imports from BRICS and the strong presence of chemicals in EU exports to BRICS.

Key trends in EU-BRICS trade relations

On the basis of the statistical data presented in the previous point, the following key trends in the EU-BRIS trade relations can be outlined:

- Chronic trade deficit – the EU maintains a significant trade deficit with BRICS, largely driven by machinery imports from China and mineral fuels from Russia.
- Machinery and transport equipment dominate the EU's import structure, underscoring the EU's import dependency on BRICS for technology and manufacturing goods.
- Strive for energy diversification – the decline in mineral fuel imports reflects the EU's energy policy changes, reducing reliance on BRICS for energy resources.

The EU's persistent trade imbalance with BRICS

The EU has consistently maintained a significant trade deficit with BRICS countries, driven primarily by its high import volume of machinery from China and mineral fuels from Russia. As of 2023, the EU's trade deficit with BRICS reached approximately €320.3 billion, reflecting an asymmetrical trade relationship (European Commission, 2024). This deficit highlights the EU's dependency on BRICS economies, especially in essential sectors like technology and energy.

China is the largest source of the EU's imports within BRICS, especially in high-value sectors like electronics, machinery, and telecommunications equipment. The EU relies heavily on Chinese imports in these categories, a dependency exacerbated by China's role as a global manufacturing hub, which allows it to produce cost-effective goods for the EU market (Smith & Lee, 2020). Russia, on the other hand, has traditionally been a primary supplier of mineral fuels to the EU, including oil and natural gas. These imports support the EU's industrial needs and energy demands, although geopolitical tensions and the EU's commitment to energy diversification have recently altered this relationship.

The trade deficit poses economic and strategic challenges. It limits the EU's bargaining power and exposes it to supply risks tied to geopolitical events, particularly in cases where dependence on BRICS countries may conflict with EU policy objectives.

EU's reliance on BRICS for machinery and transport equipment

A key feature of the EU-BRICS trade relationship is the EU's dependence on BRICS countries, especially China, for machinery and transport equipment. In 2023, machinery and transport equipment accounted for 46.1% of the EU's imports from BRICS, amounting to €322.7 billion (European Commission, 2024). This dependency reflects both the EU's demand for competitively priced machinery and BRICS's capacity to fulfill this need efficiently, with China playing a leading role due to its established manufacturing sector.

China's dominance in machinery exports to the EU stems from its extensive manufacturing infrastructure, capable of producing high volumes of electronics, automotive components, and other machinery. This has enabled China to maintain competitive

pricing, meeting the EU's demand for technology-related goods and automotive products, even as EU firms face challenges competing in terms of cost (Dunning, 2018). Beyond China, India also contributes to EU imports in machinery, particularly in automotive parts, while Russia provides energy-related machinery, albeit to a lesser extent (Krugman, 2021).

The EU's dependency on BRICS machinery imports underscores vulnerabilities, such as potential disruptions in supply chains, which became evident during the COVID-19 pandemic and subsequent global market shifts. In response, the EU has aimed to reduce reliance on external machinery sources by investing in local manufacturing capacities and building trade partnerships outside BRICS.

Reducing dependence on BRICS for energy resources

The EU's trade relationship with BRICS has historically involved substantial imports of energy resources, particularly from Russia. However, since 2022, the EU has actively pursued energy diversification to reduce reliance on Russian imports, a change driven by geopolitical tensions and policy shifts under the European Green Deal, which aims for carbon neutrality by 2050. This transition is evident in the significant drop in mineral fuel imports from Russia, which has reshaped the EU-BRICS energy trade structure.

To address its energy security, the EU has redirected efforts towards renewable energy and secured alternative sources of natural gas and oil from regions outside BRICS, particularly North America and the Middle East. These changes align with the EU's environmental objectives, reducing dependency on fossil fuels while promoting sustainable energy sources within its borders. The EU's shift away from Russian energy imports has been bolstered by investments in LNG terminals and infrastructure supporting renewable energy projects, which also help mitigate risks related to geopolitical instability.

The EU has outlined its strategy for energy diversification and reducing dependence on external energy sources, including those from BRICS countries, in several key documents.

The REPowerEU Plan (European Commission, 2022) aims to rapidly reduce the EU's reliance on Russian fossil fuels by diversifying energy supplies, accelerating renewable energy deployment, and enhancing energy efficiency. It emphasizes the importance of securing energy independence through diversification and sustainable practices.

The European Green Deal (European Commission, 2019) sets the EU's roadmap for a sustainable economy, including measures to decarbonize the energy sector, promote energy efficiency, and expand renewable energy sources, thus reducing dependence on imported fossil fuels.

The EU Energy Security Strategy (European Commission, 2018) further focuses on stable and secure energy for European citizens and the economy, underscoring the need for diversified energy sources, increased energy efficiency, and an integrated internal energy market.

FDI between EU and BRICS

The Foreign Direct Investment (FDI) between BRICS countries and the EU is growing. According to data from Eurostat (2024), the BRICS countries, especially China and India, have experienced a significant growth in FDI from the EU. In 2022 the EU's outward FDI stocks in China were valued at €247.5 billion (experiencing a constant increase in the last decade), and in India at €108.3 billion. These figures highlight the EU's strategic interest in diversifying its investment portfolio by engaging with rapidly developing markets. The substantial FDI stocks in these to countries prove their attractiveness to European investors, driven by their large consumer bases and significant economic growth potential. This increase acknowledges the BRICS' rising economic influence and its attractiveness.

FDI flows between the EU and BRICS are concentrated in sectors such as manufacturing, technology, and energy. The EU's investments in these areas are strategic, aiming to leverage competitive production costs and expand into new markets within BRICS. This strategic alignment benefits both regions, enhancing trade and economic interdependence. However, there are numerous challenges in the EU-BRICS FDI relations related to regulatory differences, political uncertainties, and economic volatility in the BRICS countries.

Potential impact of further BRICS' integration on the EU

The potential integration of BRICS poses several implications for the EU, influencing economic competitiveness, trade relations, and geopolitical dynamics. Nach and Ncwadi (2024) emphasize the increasing economic cohesion within BRICS and its potential as a counterbalance to Western-dominated global governance. They discuss the proposal of an optimum currency area (OCA) among BRICS, which, if realized, could reduce the global reliance on the euro and the US dollar. Such currency integration might also challenge the EU's economic influence in global markets and financial institutions. Furthermore, a unified BRICS approach in international forums could result in coordinated stances on global issues, potentially opposing EU positions, thus affecting the EU's strategic and economic leverage on the global stage.

Banday, Murugan, and Maryam (2020) focus on the role of FDI and trade openness in fostering economic growth within BRICS, demonstrating that both factors have positively influenced these nations' economies. For the EU, this growth trajectory in BRICS means increased competition, as these emerging economies continue to attract global investment, potentially at the expense of EU markets. Additionally, the EU may face intensified competition in export markets, given BRICS countries' rapid development in manufacturing and services. However, the EU could also benefit from deeper economic engagement with BRICS, capitalizing on growth opportunities through increased FDI flows, technology exchange, and collaborative trade policies. Enhanced economic integration within BRICS, combined with policies promoting trade and FDI,

suggests a shift towards a more multipolar economic landscape, compelling the EU to adapt to the increasing influence of BRICS in shaping global trade and investment patterns.

Conclusion

The trade relationship between the EU and the BRICS nations has evolved into a complex interplay of opportunities and challenges, significantly impacting global economic dynamics. This analysis has highlighted several key aspects of this relationship, emphasizing the persistent trade deficit, sectoral dependencies, and shifts in energy trade for the EU.

The analysis of EU-BRICS trade relations reveals a deepening interdependence, particularly in machinery, technology, and mineral products. The main challenges are related to the trade deficit and dependency on BRICS for critical imports. These trends call for strategic trade policies that balance economic benefits with supply chain diversification and risk mitigation in key sectors. The EU's substantial trade deficit with BRICS, reaching €320.3 billion in 2023, underscores a reliance on imports of machinery from China and mineral fuels from Russia (European Commission, 2024). This imbalance reflects deeper structural dependencies, where the EU benefits from competitively priced goods but faces strategic vulnerabilities associated with over-reliance on external suppliers. The EU must invest in enhancing its domestic production capabilities, particularly in high-tech manufacturing and machinery, to reduce external vulnerabilities. Strengthening trade relations with alternative partners and diversifying import sources can also mitigate the BRICS-related risks of dependencies.

Energy diversification emerges as a critical strategic response by the EU to mitigate reliance on BRICS for energy resources, particularly in the context of geopolitical tensions with Russia. The significant reduction in mineral fuel imports from Russia aligns with the EU's commitment to sustainability and energy security, as outlined in the European Green Deal (European Commission, 2019). This shift not only redefines the EU-BRICS energy trade dynamics but also positions the EU as a proactive player in the global transition towards renewable energy sources. Continued commitment to energy diversification and sustainability will be crucial in reshaping the EU's trade balance and fostering long-term economic resilience.

Future research could analyze the socio-economic implications of the trade deficit on the EU labor market, understanding how the EU-BRICS trade relationship impacts strategies for balanced and sustainable economic growth.

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