Impact of Foreign Direct Investment on BRIC Countries

Ashutosh Singh*
Garima Jaiswal Chandra*

Abstract

The world is full of opportunities for development. It depends on the country that how it explores it. Foreign direct investment provides the opportunities to the countries. The aim of this research is to study the pattern, trend, determinants and impact of FDI in BRIC countries. The study is based on the secondary data. The data has been collected for the sources i.e. UNCTAD, IMF, Reports of various countries.

China is one of the favorite destinations of foreign investors. GDP and FDI both affect each other. As far as development matters a planned FDI policy can be a boon for the economy but a unplanned policy can derail the economy. This research is based on the secondary data so there can be a chance of error in the source data. This research work is only taking the GDP as the base of development as there is a lack of data availability regarding the development indicators.

***Keywords:** FDI, BRIC, GDP, Development*

Introduction

This is the time worldwide when Governments are burdened with excessive non development expenditures. On the other hand expectation s of citizens from the existing Government is rising day by day. Such situations are open challenge for in countries which are in the developing phase. Rising deficit of budget every year increases tax load on citizens which ignite dissatisfaction among them. In other words we can say that Governments have limited resources and expenditures are unlimited. On the other side the availability of capital and motivation to help government in development of the country of the private sector in developing countries is also inadequate. This cause a helpless situation for the government. In such circumstances two option s are available one is loans and second is FDI. FDI is considered as more favorable option from loans because it has many benefits as employment generation, taxes, exploration of unused resources in the country etc.

This research work analyzes the FDI in BRIC countries. It is divided in five different parts. Following the introduction the second part covers the survey of prior research; it contains the operational definition of the FDI and conclusions of various studies in this field. This topic is further divided as FDI and FD and development. The third part discuss about the research design of the research paper. The research paper is furthe followed by the result of research, analysis and at the end conclusion.

Survey of Prior Research

Foreign direct Investment: According to International Financia Corporation "FDI in the form of loans and equity is an importan source of growth in developing countries. Equity investmen can be direct or indirect (Portfolio). The direct investment i better known as FDI. It brings new technologies, managemen techniques and market access as well".

Foreign direct investment is investment made by a foreig individual or company in productive capacity of anothe country. It is the movement of capital across national frontier in a manner that grant the investor control over the acquire

*Assistant Professor, Faculty of Management Studies, Amrapali Institute, Haldwani, India.

assets. In other words FDI can be defined as invest made to acquire lasting in enterprise operating outside of the economy of the investor (Ambika Prasad Dash, 2009). FDI can be horizontal, vertical or conglomerate. It can be also classified as import substituting, import increasing and government initiated another classification can be expansion verses defensive FDI (Imad A. Moosa, 2002).

FDI and Development: Regarding the relationship of development FDI the Theodore H. Moran, Edward Montgomery Graham, Magnus Blomström in their research Does foreign direct investment promote development? (2005) says that impact of the FDI in the developing countries has the both positive and negative. Positively MNC's are bring cutting edge of research and development, production technology and management expertise around the world. On the negative side of FDI is-FDI in the protected host country markets leads to an insufficient use of local resources and subtracts the local economic welfare. Theodore H. Moran (1998) in his study "Foreign direct investment and development: the new policy agenda for developing countries and economies in transition" studied about three theories for the FDI and development: The Benign model of FDI and development, the Malign model of FDI and development and the theory and evidence about market structure and FDI, the theories has covered 133 projects in more than 30 countries. It concluded that- a structured FDI projects potentially can have a positive impact in the country while a unstructured FDI projects can damage the economy of the country. On the other hand these theories states that positive or negative effects depends on the competition in the market where the company is going to invest.

The FDI foster the growth of the host country by easing the shortage of the capital, foreign exchange and skills. Additional benefits are – growth in employment and increase in the profitability of domestic investment (Organisation for Economic Co-operation and Development, 2002). FDI is falsely marketed to the developing countries as a "solution" to their underdevelopment. Development itself is a complex phenomenon. To single out FDI (as most third world governments tend to do) as the principal means to development is reductionism pushed to its absurdity.

The evidence that FDI brings development and transfers technology are not available. But there are evidence available that FDI leads to increasing exposure to crisis, and - like aid in the 1970s and it also increasing dependency. The countries are running behind the FDI because one they don't know better; second because of the influence of International Financial Institutions (IFI); third because their own bureaucrats are largely educated in neo-liberal economics; and fourth because like a shot in the arm FDI can restore the health of a dying economy. But like drug addiction, the more you have it, the more you are in need of it (Tondon, 2004). Leaders should not expect a flood of FDI in the country. It is not sure that there will be always positive effect of FDI in the country. (Peter Nunnenkamp, 2002).

India as a developing country desperately need huge investments for the economic growth. The people of India are looking towards foreign investment for the development but it's not the solution for all the problems. India requires a development strategy where FDI can be a part of it only (Ramkishen S. Rajan, Sunil Rongala, Ramya Ghosh). The effect of FDI varies according to the different sectors of economy. In the primary sector FDI can affect negatively but in the manufacturing sector it can affect positively on the other hand the effects of FDI the service sector are not clear. As far as the results of various researches are concerned in terms of growth determinants such as income, human capita measures, domestic financial development, institutional quality has been improved. (Alfaro, 2003)

There can be numerous reasons which make a country unattractive for the investors. In the developing countries competitiveness, infrastructure quality, unemployable labour forces are few of the several reasons. On the other hand these countries contain a huge domestic demand and all the features that attracts an investor but it's a same situation the food is attractive but it's not tasting good (Nirupam Bajpai and Jeffrey D. Sachs, 2000). The developing countries should open their economies in the well planned manner. Foreign firms can play a major role in the countries development (K.C. Fung, 2002). In case of developed countries investors get a higher degree of economic liberalization, explored natural resources, and favorable FDI legal framework. But the financial crisis on the global level terrorizes the investors. The global recession's impact on Russian inward and outward FDI began to be apparent from the second part of 2008 (Tamilla Curtis and Kornecki Griffin, 2009).

Research design

Data collection: The data has been collected from the numerous sources including books, earlier research articles and reports in the respective field, web sites of various organizations like UNCTAD, World Economic forum etc.
Sampling design: To study the impact of FDI we selected the BRIC countries. To check the impact we have used economic indicators and the FDI inflow from 2000-2010.
Statistical techniques: Correlation method is used to check the relation between GDP and FDI.

Results of the research

While checking the GDP of BRIC countries in the Table 1 it was found that in the case of Brazil the GDP drop down drastically in -0.19 and worst case happened with Russia where GDP was -7.90 in the same year.

Table 1: GDP

	Brazil	Russia	India	China
2000	4.31	10.05	4.03	8.40
2001	1.31	5.09	5.22	8.31
2002	2.66	4.74	3.77	9.10
2003	1.15	7.25	8.37	10.00
2004	5.71	7.15	8.30	10.10
2005	3.16	6.39	9.30	11.30
2006	3.96	7.68	9.44	12.70
2007	6.09	8.06	9.63	14.20
2008	5.14	5.62	5.12	9.60
2009	-0.19	-7.90	7.66	9.10
2010	7.49	3.96	8.50	10.30

Source: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx

India and China have witnessed an outstanding growth in GDP. In 2008 and 2009 both witnessed a downfall but that was not as major as the other two countries. These ups and downs also reflect in the FDI flow in the case of Brazil and Russia. In 2008 there is a downfall in the investments in both countries.

Table 2: FDI in million US $

	Brazil	Russia	India	China
2000	122250.3	32204	16338.95	193348
2001	121948.4	52919	19675.92	203142
2002	100862.5	70884	25826.28	216503
2003	132818.1	96729	32549.19	228371
2004	161258.8	122295	38060.24	245467
2005	181344.3	180228	43201.58	272094
2006	220620.9	265873	70870.28	292559
2007	309668	491052	105790.5	327087
2008	287696.9	215755	125211.7	378083
2009	400807.7	381962	167023.2	473083
2010	472578.5	423150	197939.3	578818

Source: http://unctadstat.unctad.org/eportFolders/reportFolders.aspx

Worldwide flow of FDI and share of BRIC countries

While comparing the share of the total FDI around the world in the Table 3, it's found that the in the past decade China has emerged as a hottest destination of FDI. Brazil and Russia have a steady growth with fluctuations in the figures. India is far behind from all the countries.

Table 3: Percentage wise country's share in FDI in worldwide FDI flow

Countries/Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Rest of World	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Brazil	1.64	1.63	1.34	1.41	1.45	1.57	1.59	1.73	1.88	2.23	2.47
Russia	0.43	0.71	0.94	1.03	1.10	1.56	1.92	2.75	1.41	2.13	2.21
India	0.22	0.26	0.34	0.35	0.34	0.37	0.51	0.59	0.82	0.93	1.03
China	2.60	2.72	2.88	2.43	2.21	2.36	2.11	1.83	2.47	2.64	3.02

Table 4: Ease in doing business

	Years	Brazil	Russia	India	China
Starting a Business - Procedures (number)	2004	17	14	11	13
	2005	17	11	11	13
	2006	17	10	11	13
	2007	15	9	11	13
	2008	16	9	13	13
	2009	16	9	13	14
	2010	14	9	13	14
Starting a Business – Time (days)	2004	152	44	89	48
	2005	152	36	89	48
	2006	152	31	71	48

2007	149	30	35	35
2008	149	30	33	35
2009	149	30	30	41
2010	119	30	30	38

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ase in doing business rankings

ccording to the Doing Business Project from the year 2004-10 here are the number of procedures involve in starting any usiness. In these years the business procedures in Brazil were educed from 17 to 14, in Russia from 14 to 9 but in India and hina it has been increased from 11 to13 and 13 to 14. While days involve in starting the business in Brazil are reduced from 152 to 119 days, Russia 44 to 30 days, India 89 to 30 days, China 48 to 38 days. Share in the total FDI flow in from 2000-2010 Brazil has been increased from 1.64% to 2.47%, Russia 0.43%-2.21%, India 0.22%-1.03%, China 2.60%-3.02%.

Table: 5

China	India	Russia	Brazil	World	Year
193348	16338.95	32204	122250.3	7445637	2000
203142	19675.92	52919	121948.4	7466297	2001
216503	25826.28	70884	100862.5	7514343	2002
228371	32549.19	96729	132818.1	9400986	2003
245467	38060.24	122295	161258.8	11093438	2004
272094	43201.58	180228	181344.3	11539452	2005
292559	70870.28	265873	220620.9	13833355	2006
327087	105790.5	491052	309668	17849168	2007
378083	125211.7	215755	287696.9	15294653	2008
473083	167023.2	381962	400807.7	17950498	2009
578818	197939.3	423150	472578.5	19140603	2010

Source: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx

nalysis

he correlation coefficient while using GDP as an independent ariable and FDI as a dependent variable of Brazil is 0.338942, ussia's -0.37321, India's 0.332194 and China's 0.1465. While aking FDI as an independent and GDP as dependent variable orrelation coefficient provided same result. It shows that FDI nd GDP have perfect correlation. It further tells that one; by e change in any one of them another variable will also get ffected, second; a growing rate of FDI contributes in the GDP, irdly; the rising GDP rate attracts more foreign investments. hile analyzing the other macro environment factors which are ifficult to quantify it was found that-

razil- The investments in both public and the private projects fallen up to 9% there was a decline in the production of auto mobile sector by 60%. In December 2008 Brazilians lost 6, 54,000 jobs. Due to fall in domestic and foreign demand there was a dramatic decline in prices (Nanto D. K., 2010). Brazil has also witnessed the impact of downturn at stock market and the currency market. Recession has pushed the prices of copper, nickel, zinc and other industrial downward (Reuters, 2008). According to the table no. 3.

The percentage share of Brazil in the total FDI has been increased from 1.64% to 2.47%. With a downfall in the year 2002 the Brazilian share in the total world's FDI has witnessed continuous growth. The foreign investment policies in Brazil are smoothening, as the procedures of starting any business are reduced from 17 to 14 in the time period 2000 to 2010. The time for starting any business is also reduced from 152-119 days.

Russia- The drop in the Russian GDP is due to the International Financial Crisis 2008-2010. The industrial production has fallen up to 3% in the last quarter of 2008 and 15% in the first quarter of 2009 (Anders Åslund, S. M. Guriev, Andrew Kuchins, 2010). Russia has faced triple threat with the financial crisis which resulted as negative impact on economic growth. Something went wrong on the political front which worked against the economy, the rapid decline in oil prices and the consequences due to country's military confrontation with Gorgia over the break-away areas of South Ossetia and Abkhazia. The circumstances uncovered the weakness of the Russian economy were: extensive dependence on oil and gas sale for the export revenues and government revenues, rise in foreign and domestic investors concern; and finally a weak banking system (Nanto, 2010). Russia was getting the second smallest part among the BRIC countries in 2000-2010. But as like other countries its share has been increased in the total world FDI flow. Russian government is working for attracting the foreign investment and boost up the in-house business from 2004-2010 the process for starting any business are reduced from 14-9 on the other hand the time for starting any business is reduced from 44-30 days.

India- In the terms of FDI flow in the country India has constant progress in the FDI every year. But if we check the last 11 year data of worldwide inflow of foreign capital and FDI in India, the condition is not good. In 2000 India got the 0.22% of total FDI of the world and in 2010 it has increased up to 1.03%. The foreign investors are not showing their interest. The reasons of such problem are first non residents Indians are firstly less interested in cooperating to the government, second is India's bureaucracy, third the time consuming environmental clearances and legal formalities and fourth but an important one is political instability at central and state level (Subbarao, 2011). Some other reasons of India getting ignored by the foreign investors are- restrictive FDI regime, lack of clear and transparent sectorial policies for FDI, high tariff rates in comparison to international standards, states don't have authority for decision making over the issues of FDI on the other hand in the other BRIC countries the state governments are taking the lead to attract the foreign investment. In Brazil, São Paulo and Minais Gerais are leading the reforms in the country same is in China too, it's the coastal provinces, are in lead; in Russia, and FDI reforms are encouraged in Nizhny Novgorod and in the East Russia. In India there are no liberalize exit barriers for the investors and the high corporate taxes (Nirupam Bajpai and Jeffrey D. Sachs, 2000). Apart from this India offers many advantages to the MNEs as large market, knowledge of English language, skilled work force.

China- China is one of the fastest growing economies of the world. Its powerful political leadership has leads to a well planned economy. Starting for the year 2000 the GDP was 8.40, it reached to 14.20 in 2007 but due to the shock of recession it dropped to 9.60 and 9.10 in 2008 and 2009 respectively. But it 2010 it again moved to 10.30. In terms of FDI the country is leading all the BRIC nations. This progress is just due to the reforms for attracting the FDI in the country (K.C. Fung, 2002). In 2010 China was receiving 3.02% of the total foreign investment of the world. The procurers for starting a new business are increased from 13 to 14 and the days in starting a business reduced from 48 to 38.

After China's attainment to the WTO in 2001, it relaxed the FDI rules as per the requirements of WTO. It dropped down the tariff rates to 15.3% in 2002 to 9.3%. The further measures which were taken are:

1. Equal access to the domestic and overseas suppliers of the raw material, fuel, components without priority requirements favoring domestic suppliers.
2. FDI firms are free to sale its products either in China's domestic or its export market. (Chen, 2011)

Opportunities and Challenges: The world is full of opportunities and challenges. For attracting foreign investors the countries have to fight hard always. Today all the developing countries are trying hard to attract foreign capital both from diplomatic and economic point of view. The continuous downturns are making situations worst in the developing countries also. India has faced the last recession in 2009 successfully due to sufficient domestic demand. But the current economic slowdown seems to be more difficult. Economies all around the world are facing attacks of slow down from all fronts, whether its inflation, slow down in domestic production or retrenchment from jobs.

Summary and conclusions

The path of attracting FDI is full of challenges and there are a lot of limitations in front of governments. But still China and India were ranked as first and third respectively as most favorite investment destination in 2012-14 according to the survey of 179 MNCs by World Investment Report of the UN Conference on Trade and Development (UNCTAD) (Economy and policy 2012). In reference to India the foreign investment is not coming in the country in the balanced manner. Investment in the service sector is highest in comparison to the other essential sectors as power, R&D, manufacturing and infrastructure. Comparatively China is attracting the FDI in the manufacturing, R&D and infrastructure which is building a strong foundation of the domestic business. In the case of Brazil the service sector leads in attracting the foreign investment but it is followed by inance, telecom and power sectors. Due to a different political structure in the country Russia has restricted approx 8 sectors or the foreign and private investment. On the other hand the political disabilities also restrict the investors to move forward.

t is also observed that in all the countries realization of approved FDI into actual disbursement is quite low. It is to suggest that the government while pursuing prudent policies must also exercise strict control over inefficient bureaucracy, red - tapism, and the rampant corruption, so that investor's confidence can be maintained for attracting more FDI inflows to India. Last but not least, the study suggests that the government ensures FDI quality rather than its magnitude.

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