A Study on Role of Foreign Direct Investment in BRIC nations

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Abstract

Foreign Direct Investment is one and only major instrument of attracting International Economic Integration in any economy. The Brazil, Russia, India and China (BRIC) nations have all become major players in global FDI inflows as they have attracted 22.29% of global FDI projects from 2003 to 2012. The flow of foreign investment in industries like insurance, real estate and business services serve as a catalyst for the growth of economy. These inflows are supplementing the scare domestic investments in developing countries. The present study is based on the objectives like (To study the significance of FDI in BRIC nations and analyze the trends of FDI inflows).

Keywords: FDI inflows, BRIC nations

Introduction

The role of Foreign Direct Investment (FDI) in development of an economy is very crucial. The enormous increase in FDI flows across countries is one of the clearest signs of the globalization of the world economy over the past 20 years (UNCTAD, 2006). According to UNCTAD Foreign direct investment (FDI) is defined;

'As an investment involving a long-term relationship and reflecting a lasting interest in and control by a resident entity in one economy (foreign direct investor or parent enterprise) of an enterprise resident in a different economy (FDI enterprise or affiliate enterprise or foreign affiliate).'

Another simple definition of FDI would be;

'An investor based in one country acquires an asset in another country with the intent to manage that asset.'

Foreign Direct investment acts as a link to fulfill the gap between investment and saving. In the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promote efficiency and productivity of the existing production capacity and generate new production opportunity.

In economics, BRIC is a grouping acronym that refers to the countries of Brazil, Russia, India and China, which are all deemed to be at a alike stage of newly advanced economic development. It is typically rendered as "the BRICs" or "the BRIC countries" or "the BRIC economies" or alternatively as the "Big Four". A related acronym is BRICS which includes South Africa. The present paper attempts to highlight the FDI trends in the emerging economies of Brazil, Russia, India and China (BRIC) as these countries have acquired important role in the world economy as producers of goods and services. They are attracting large amount of investors from around the world as these countries of BRIC have common characteristic of large population, potential consumer market, fast economic growth, big land size etc.

Significance

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. The local population may be able to benefit from the employment opportunities created by new businesses

Objectives of Study

1. To study the significance of FDI for developing countries in bridging the gap between the saving and Investment.
2. To analyze the trends of FDI in the recent past in BRIC economies.

Research Methodology

The present study is based on the FDI inflows around the globe and especially in the BRIC nations. To analyze these objectives data has been gathered through secondary sources like reports from UNCTAD & FDI Intelligence and publication of Govt. and RBI relating to foreign Investment.

Global Overview of FDI

FDI projects into Asia-Pacific

Despite a 14.96% decline in the number of projects in Asia-Pacific in 2012, it was still the leading world region, attracting 3740 projects with a 31.72% global market share. As in 2011, China, India and Singapore were the three leading countries for inward FDI, attracting more than half of all projects in Asia-Pacific. This was despite FDI in China and India falling sharply by 27.05% and 20%, respectively. Table 1 below shows the top 10 countries in 2012 in Asia Pacific for FDI

Table 1

TOP 10 DESTINATION COUNTRIES IN ASIA-PACIFIC IN 2012

Country	Number of projects
China	944
India	704
Singapore	348
Australia	307
Hong Kong	184
Malaysia	162
Indonesia	155
Vietnam	143
Japan	118
Thailand	118
Other	557
Total	3740

FDI projects into Europe

The number of FDI projects into Europe declined in 2012, mirroring global trends. A total of 3891 projects were recorded, representing a 20.82% decrease in comparison with 2011. In 2012, the top 10 countries accounted for 72.19% of FDI projects into Europe. Table 2 below shows the top 10 countries in 2012 in Europe for FDI

Table 2

TOP 10 DESTINATION COUNTRIES IN EUROPE IN 2012	
Country	Number of projects
UK	812
Germany	410
Spain	278
Russia	265
France	244
Poland	237
Ireland	147
Netherlands	145
Romania	138
Turkey	133
Other	1082
Total	3891

FDI projects into North America

The number of FDI projects into North America declined by 9.48% in 2012, with the region attracting 1671 FDI projects during the year. Capital investment in 2012 decreased by an estimated 12.61% and job creation by an estimated 2.36% compared with 2011. Despite these declines, North America was the best performing region of the world in 2012, with the decline in FDI much sharper in the rest of the world. Table 3 below shows the top 15 countries in 2012 in North America for FDI

Table 3

TOP 15 DESTINATION STATES IN NORTH AMERICA IN 2012	
State/province	Number of projects
California	205
New York	146
Ontario	123
Texas	116
Florida	66
Massachusetts	57
North Carolina	53
Illinois	49
Michigan	48
Indiana	45
Georgia	42
South Carolina	41
Pennsylvania	40
Alabama	35
Alberta	33
British Columbia	33
Other	539
Total	**1671**

FDI projects into Latin America and Caribbean

In 2012, the number of FDI projects into Latin America and the Caribbean declined by 19.52%, with the region attracting 1117 FDI projects. Capital investment decreased by an estimated 54.97% and the region also experienced an estimated 42.28% decline in jobs created. Table 4 below shows the top 10 countries in 2012 in Latin America and Carribean for FDI.

Table 4

TOP 10 DESTINATION COUNTRIES IN LATIN AMERICA AND CARIBBEAN IN 2012

Country	Number of projects
Brazil	432
Mexico	244
Colombia	93
Chile	79
Argentina	77
Peru	34
Costa Rica	25
Panama	17
Uruguay	14
Puerto Rico	13
Other	89
Total	1117

FDI projects into Middle East and Africa

The number of FDI projects into the Middle East and Africa (MEA) declined by 11.78% in 2012 to 1370 projects. Capital investment in the region fell by an estimated 43.31% and job creation by an estimated 23.32%. Table 5 below shows the top 10 countries in 2012 in Middle East and Africa for FDI.

Table 5

TOP 10 DESTINATION COUNTRIES IN MIDDLE EAST AND AFRICA IN 2012

Country	Number of projects
UAE	291
South Africa	147
Saudi Arabia	107
Oman	73
Egypt	54
Nigeria	54
Qatar	54
Kenya	50
Morocco	48
Bahrain	37
Other	455
Total	1370

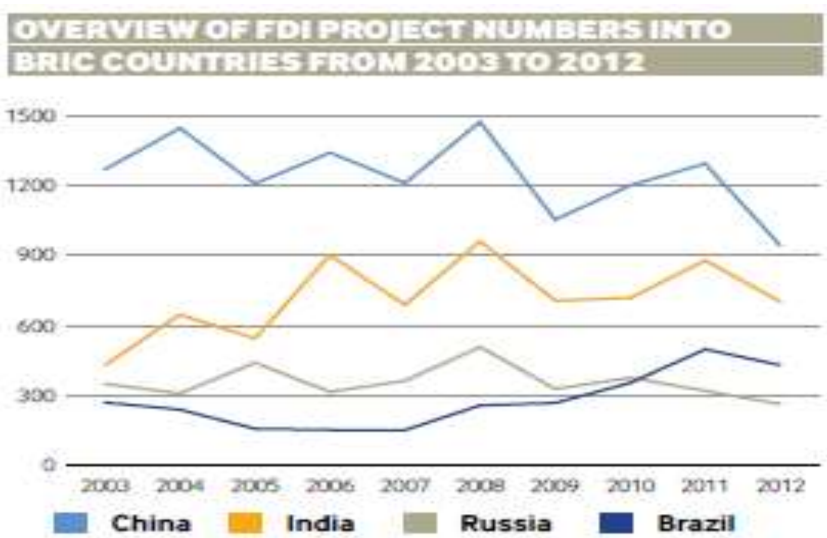
FDI into BRIC countries

Brazil, Russia, India and China have all become major players in global FDI. From 2003 to 2012, the BRIC countries attracted 22.29% of global FDI projects. China alone attracted more than one-tenth of global FDI projects and has topped the regional rankings every year since 2003. BRIC countries have attracted 26,027 projects since 2003, with estimated capital investment of $2230bn, creating approximately 8 million jobs directly. The highest volume of FDI into the BRIC countries was in 2008, with a total of 3205 projects recorded. In 2012, three of the BRIC countries – China, India and Brazil – finished in the top five destination countries for FDI globally. Collectively, they attracted 17.64% of global FDI projects. Brazil saw the largest increase in market share of the BRIC countries in 2012, attracting 18.42% of FDI projects into the BRICs. Russia attracted 11.3% of FDI projects into the BRICs in 2012 and ranked second in capital investment in Europe in 2012. India attracted 30.02% of FDI projects into the BRICs in 2012. The country also performed well from a regional and global perspective in 2012,

ranking second in Asia-Pacific and fourth globally by project numbers. China accounted for 40.26% of FDI projects into the BRICs in 2012 and captured 8.01% of global FDI projects. Within Asia-Pacific, China was the top country for FDI by project numbers, with a regional market share of 25.24% of projects. The economic slowdown in BRIC economies and worldwide is likely to lead to a continued decline in FDI to the BRIC countries in 2013. However, from 2014 onwards we expect FDI into the BRICs

Exhibit 1below shows the overview of FDI project numbers into BRIC countries.

Exhibit 1



Sector breakdown in BRIC countries in 2012

Almost one-fifth of global FDI in 2012 was located in the BRIC countries. The five leading sectors in the BRICs in 2012 were the same as the five leading sectors for FDI worldwide, reflecting the importance of the BRICs on a global scale.

Business and financial services was the leading sector for FDI into the BRIC countries accounting for 21.79% of projects in 2012 and 18.45% of global FDI projects in the sector in 2012. However, the BRICs' largest share of world FDI was in the chemicals, plastics and rubber sector, where the BRIC economies attracted nearly one-third of global FDI in the sector. The BRICs also attracted nearly one-quarter of global FDI in the food, beverages and tobacco sector in 2012, with an increase of 9.73% in project numbers from 2011. BRIC countries.

Table 6 shows the sector overview of FDI into the BRIC countries in 2012

Table 6

SECTOR OVERVIEW OF FDI INTO THE BRIC COUNTRIES IN 2012

Sector	Projects	Global projects	Market share (%)
Business and financial services	511	2770	18.45
ICT	374	2380	15.71
Transport equipment	216	857	25.20
Chemicals, plastics and rubber	205	722	28.39
Engines, turbines and industrial machinery	202	782	25.83
Transportation, warehousing and storage	148	706	20.96
Food, beverages and tobacco	124	504	24.60
Real estate, hotels and tourism	108	542	19.93
Metals and minerals	92	419	21.96
Electronic components and semiconductors	89	448	19.87
Consumer electronics, consumer goods and business machines	82	442	18.55
Life sciences	72	428	16.82
Paper, packaging, wood and textiles	49	220	22.27
Building materials, ceramics and glass	25	112	22.32
Coal, oil and natural gas	23	189	12.17
Renewable energy	16	200	8.00
Leisure and entertainment	6	48	12.50
Space and defence	3	20	15.00
Total	**2345**	**11,789**	**19.89**

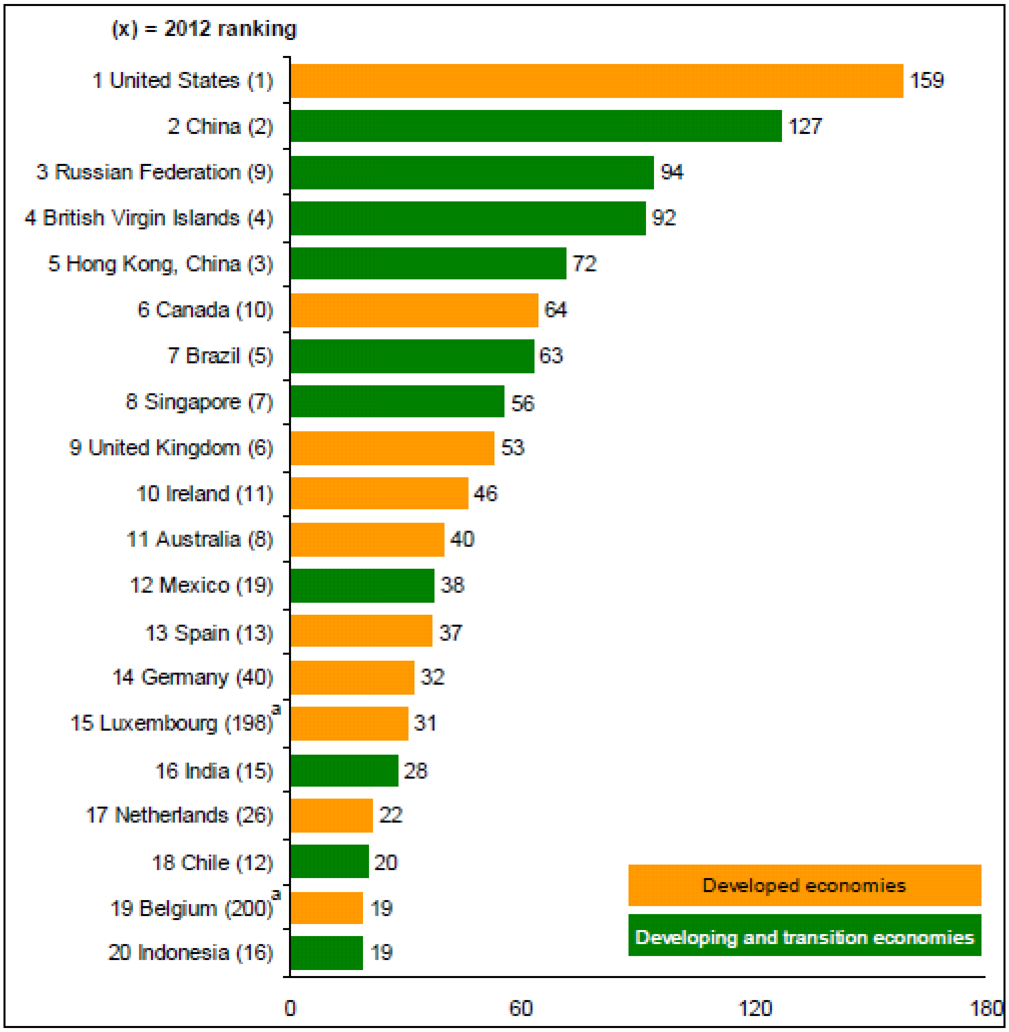
The exhibit 2 shows that Brazil is the largest recipient of FDI in the sub-region, with 47% of South American total FDI flows in 2013 – declined by a slight 3.9% in 2013, but remained significant (US$63 billion). Nevertheless, this decline should be seen in the context of strong growth in previous years that boosted FDI in Brazil to historical highs.

FDI inflows to the Russian Federation jumped by 83% to US$94 billion making it the world's third largest recipient of FDI for the first time ever. This is expected to keep pace with its 2013 performance as the Russian Government's Direct Investment Fund – a US$10 billion fund to promote FDI in the country – has been very actively deployed in collaboration with foreign partners, for example funding a deal with Abu Dhabi's Finance Department to invest up to US$5 billion in Russian infrastructure.

With inflows to China at an estimated US$127 billion – including both financial and non-financial sectors – the country again ranked second in the world, closing the gap with the United States to some US$32 billion (figure 5).

India experienced a 17% growth in FDI flows, to US$28 billion, despite unexpected capital outflows in the middle of the year.

Exhibit 2
FDI inflows: top 20 host economies, 2013
(Billions of US dollars)



Source : UNCTAD

Conclusion

The information reveals that the BRIC nations have been among the top 20 host countries for attracting the FDI inflows. The 2014 FIFA World Cup and 2016 Olympics in Brazil and the 2018 FIFA World Cup in Russia should stimulate FDI. Major FDI reforms in India, including passing a new land acquisition law and permitting more FDI in retailing, airlines and broadcasting is likely to increase FDI into India in the medium to longer term and once the path of Chinese GDP growth becomes clearer investors are likely to expand FDI again into China.

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