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IMPACT OF FOREIGN DIRECT INVESTMENTS ON BRICS NATIONS' ECONOMIES

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1. Introduction

BRICS refers to an acronym for an association of five emerging economies of the world namely, Brazil, Russia, India, China and South Africa. This term came into being in the year of 2001 by Jim O'Neill, then chairman of Goldman Sachs Asset Management(O'Neill, 2001). He defined BRICs as the emerging economies of the world that would be able to compete with the G7 in the future. The first summit of the association was conducted in the year of 2009 (excluding South Africa) in Yekaterinburg with emphasis on improving the global economic scenario, improving their involvement in international affairs and world development(Kremlin, 2009). In the coming year, South Africa was accepted into the association as the fifth member country, which in turn initiated the change from BRIC to BRICS, starting from their third annual summit organized in 2011.

Foreign direct investment used to evolve around a company investing in building or upgrading a business in a foreign country. Today, this definition has been expanded to include the acquisition of a controlling interest in a company in an another market that has not been necessarily been a market that the firm is existing in. Under this definition, there are several ways in which companies can invest directly in foreign markets:

- Construction of facilities or investment in facilities in a foreign market
- Mergers and acquisitions
- Investment in a joint venture located in a foreign market

However, most foreign direct investment is still made by large companies investing in the construction of facilities abroad.

Hence, Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct foreign investment may be made through the acquisition of an existing entity or the establishment of a new enterprise. This form of business entry has had a significant impact on the five emerging countries that are a part of BRICS. With FDI on the rise, the growth and its impact will propel these emerging economies into major world economies in the near future. Thus, FDI is also an important source for the development of strategic sectors of the BRIC countries.

2. Literature Review

Sridharan P., Vijayakumar. N &Chandra Sekhara Rao. K (2009) in their study entitled "Causal Relationship between Foreign Direct Investment and Growth: Evidence from BRICS Countries" This paper examines the causal relationship between Foreign Direct Investment (FDI) and Growth of the BRICS countries. We have employed Industrial Production Index (IPI) as a measure of Economic Growth. The stationarity of the data series are checked with the help of Augmented Dickey Fuller (ADF) Test and tested for the existence of co-integration. Johansen Co-integration model found that the Brazil alone co-integrated among the selected countries at levels. The Vector Error Correction Model (VECM) employed to trace the existence of long run relationship. The results of VECM reflect that Growth leads FDI bi-directionally for Brazil, Russia and South Africa and FDI leads Growth uni-directionally for India and China respectively.

Pravin Jadhav (2012) in his study entitled "Determinants of foreign direct investment in BRICS economies: Analysis of economic, institutional and political factor" The paper explores the role of economic, institutional and political factors in attracting foreign direct investment (FDI) in BRICS (Brazil, Russia, India, China & South Africa) economy and the comparative weightage of these factors in attracting FDI. The study has used panel data for a period of ten years (2000-2009) in order to examine the significant determinants of FDI in BRICS from a holistic approach. Analysis has been done using panel unit-root test, and multiple regressions. The study takes into account Market Size, Trade openness, natural resources as economic determinants and Macroeconomic Stability (Inflation Rate), Political stability/No violence, Government

Effectiveness, Regulatory Quality, Control of corruption, Voice and accountability, Rule of Law as potential institutional and political determinants of FDI. These factors are based on their relative importance from previous empirical literature. Findings reflect that economics factors are more significant than institutional and political Factors in BRICS economies. The results indicate that market size measured by real GDP is a significant determinate of FDI which implies that most of the investment in BRICS is motivated by market-seeking purpose. Analysis of empirical data also indicates that trade openness, natural resource availability, rule of law and voice and accountability are statistically significant. Coefficients of market size, trade openness are positive which implies that these variables have positive effect on total inward FDI. Natural resource availability has negative effect on total inward FDI, this particular result indicate that FDI is not motivated by resource-seeking purpose in BRICS economies.

Uduak S. Akpan, Salisu R. Isihak & Simplice A. Asongu (2014) in their study entitled "Determinants of Foreign Direct Investment in Fast-Growing Economies: A Study of BRICS and MINT" The study employs panel analysis to examine the determinants of foreign direct investment (FDI) in Brazil, Russia, India, China, and South Africa (BRICS) and Mexico, Indonesia, Nigeria, and Turkey (MINT) using data for eleven years i.e. 2001-2011. First, it uses pooled time-series cross sectional analysis to estimate the model on determinants of FDI for three samples: BRICS only, MINT only, and BRICS and MINT combined; then, random effects model is also employed to estimate the model for BRICS and MINT combined. The results show that market size, infrastructure availability, and trade openness play the most significant roles in attracting FDI to BRICS and MINT while the roles of availability of natural resources and institutional quality are insignificant. Given that FDI inflow to a country has the potential of being mutually beneficial to the investing entity and host government, the challenge is on how BRICS and MINT can sustain the level of FDI inflow and ensure it results in economic growth and socio-economic transformation. To sustain the level of FDI inflow, governments of BRICS and MINT need to ensure that their countries remain attractive for investment. BRICS and MINT also need to ensure that their economies absorb substantial skills and technology spillovers from FDI inflow to promote sustainable long-term economic growth by investing more in their human capital. The study is significant because it contributes to literature on determinants of FDI by extending the scope of previous studies which often focus only on BRICS.

Gaurav Agrawal (2015) in his study entitled “Foreign Direct Investment and Economic Growth in BRICS Economies: A Panel Data Analysis” This research paper is an attempt to examine the relationship between foreign direct investment (FDI) and economic growth in the five BRICS economies namely, Brazil, Russia, India, China and South Africa over the period 1989-2012. The empirical methodology cointegration and causality analysis at panel level is applied. The results confirm that foreign direct investment and economic growth are cointegrated at the panel level, indicating the presence of long run equilibrium relationship between them. Results from causality tests indicate that there is long run causality running from foreign direct investment to economic growth in these economies. It is thus important that policymakers to remove obstacles to FDI inflows and improve the respective absorptive capacity in order to reap maximum positive growth effects.

Yunyun Duan (2010) in his study entitled “FDI in BRICs: A Sector Level Analysis” The research paper attempts to compare the overall trends and industrial patterns of inward foreign direct investment in the BRICs and explain their determinants. The overall trend of the inward FDI in the BRICs is increasing. Nevertheless, the industrial patterns of inward FDI are different from each other. In addition, there are three main factors that determinant the industrial patterns of inward foreign direct investment in the BRICs: develop courses, resources and the business environment.

3. Methodology

This paper is a descriptive study and is purely based on facts, figures and data, collected from various research articles from journals, magazines and websites especially from top corporates and accounting firms of the industry. Further latest contributions of various experts on the subject have also been referred.

4. Scope of the Study

This study extends to the impact of Foreign Direct Investments on BRICS nations and its economies only.

5. Analysis

5.1. Impact Analysis of FDI in Brazil

In Brazil, FDI has been integral ever since the late 19th Century. Post the effects of the 2nd World War, the Brazilian Industrialization began for which Foreign Direct Investment played a key role in initiating it. Much of the Brazilian economic history shows that the country has relied upon foreign capital to finance its development and growth. Prior to 2016, the foreign investments were attracted by Brazil that resulted in their rapid economic growth due to them in hosting the 2014 and 2016 Olympics. But very recently, Brazil has fallen out as a destination for foreign investment (Kenneth Rapoza, 2016). Brazil falling out of favor could be attributed to its worst political and economic crisis in decades.

FDI has and will always be integral to the Brazilian economy. It could be seen that Brazil's growth as an emerging economy has been significantly attributed to FDI. In order to retain its status as an actual emerging economy, it must strive to solve its crises to attract further FDI.

5.2. Impact Analysis of FDI in Russia

Russia as a part of the USSR in the early 1990s, saw their FDI being relatively flat throughout. During the 2000s, however, Russia finally emerged as a country of opportunity for foreign investors resulting in an uptick for FDI. In fact, FDI inflows has increased over the last years in Russia thanks to its tremendous natural resources and growing domestic market. Russia, soon enough saw it being added as a WTO member which led to internal economic reforms and improved foreign investment climate towards transparency and predictability in business transactions in the country. But, in the process, Russia saw their and world politics play a major role in its downfall with regards to its attractiveness as an investment destination. With the Crimean issue becoming widespread coupled with the massive decrease in oil prices, their FDI fell by 92% in 2015 (U.N. World Investment Report, 2015).

In regards to its relationship with FDI, Russia's economy shares a relatively direct relationship. With increase in FDI, results in the betterment of the economy and vice versa. The two crises (Crimean crisis and Oil crisis) coming together has resulted in the Russian Financial crisis causing significant losses to the value of its currency, i.e., Ruble. For the country, to grow, it will require to solve its issues, and aim to increase its attractiveness as an investment destination once again.

5.3.Impact Analysis of FDI in India

In the 1990s, the Government of India, initiated the LPG (Liberalization, Privatization and Globalization) scheme that included a series of economic and financial reforms aimed to progressively integrate Indian economy with the global economy which it failed to prior. FDI is perceived by the Indian Government as an imperative driver of financial development and advancement. As a result of the different approaches taken by the Government, India has quickly transformed from a restrictiveregime for foreign investments to a more liberal one. Since, the incorporation of the Modi Government within India, it has initiated 'Make In India' to attract further investments by providing 100% FDI in multiple sectors as well as easier investment modes for foreign investors.

In regards to the impact of FDI in India, it has been massive since the 1990s. Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment (IBEF, 2016). In order to propel itself as one of the major economies in the coming years, it must strive on it already robust FDI, resulting in massive returns as well.

5.4.Impact Analysis of FDI in China

China, a country that was a highly closed and state-planned economy has moved into one of the largest open and internationally integrated marketplace, over the past three decades. From the 1980s to the 1990s, FDI inflows grew steadily but remained relatively low mainly confined to joint ventures with Chinese state-owned enterprises as the economy was highly restrictive to be completely open. Since the 1990s, however, FDI became quite important for the Chinese economy and new rules and regulations have been issued accordingly promoting itself as an open economy. In 2001, post its inclusion as a WTO member, many new laws and regulations were passed further encouraging FDI in its economy. FDIs in China have benefited from this liberalization trend, specially the distribution, logistics, financial services and telecommunications sectors. With the constant rise in FDI within the Chinese economy, it is foregone conclusion, that China could become the largest economy in the future.

FDI's impact on China has been monumental. It is currently the largest economy within BRICS and is slated to become even bigger. Given China's projection on the global arena, this movement is only expected to increase in the near future, as China continues to establish its position as one of the world's foremost economic growing power Nation. Thus, FDI has proven to be the most effective method of business entry for corporates in terms of its contributions to the country's economy.

5.5.Impact Analysis of FDI in South Africa

South Africa, being the free-market economy that it is, encourages foreign investment in both the public and private sectors. South Africa has proven to be a major attraction for foreign investors due to its:

- Transparent Regulatory Framework
- A large population
- Access to raw materials
- Political Stability

Though the country has several factors playing a role in it attracting foreign investors, it hasn't attracted enough. South Africa continue to suffer from a number of legislative uncertainties that discourage foreign investors. However, in December 2015 the Government passed the Protection of Investment Act, which strengthens legal safeguards for foreign investors. Nonetheless, South Africa dropped by a large number of places in the Doing Business ranking published by the World Bank (placing 73rd out of 189 countries in 2016 compared to 69th of 189 in 2015) [Santander Trade Portal, 2016].

FDI hasn't had much of an impact in South Africa despite it having several factors attempting to implement it. Being the Third highest recipient of FDI in the continent doesn't mean much, when it doesn't receive enough of it. Hence, South Africa has great potential for possible foreign investors compared to other countries in the world; however, its record in terms of attracting FDI thus far has been relatively poor. FDI has nonetheless been improving in recent years due to new investments in infrastructure. Thus, in order to ensure growth in economy it must concentrate on providing further incentives for foreign investors and continuing partnership within BRICS.

6. Conclusion

BRICS has been monumental for the world economy. All the five countries have grown positively due to the incorporation of FDI in their economies. To ensure that all the five emerging economies grow into major economies, they must aim for continuing their current incentives for FDI. At the current trend, two of the five countries have touched the milestone of massive FDI's while three still lag behind in the same. Thus, as a partnership, they must all contribute to each other's economies which could increase the impact of FDI in their respective economies monumentally.

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