

**THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT  
IN BRAZIL**

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22

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## **Abstract:**

Brazil has been one of the significant recipients of foreign direct investment (FDI) among the newly emerging markets of global economy over the last 20 years, and has recorded rapid and sustained growth rates in a number of different industrial sectors. Indeed, FDI plays a significant role in the Brazilian economy. Brazil has been pursuing different foreign investment policies at different times depending on the development objectives and economic situation in the country. The present study has focussed on to empirically examine the influence of macroeconomic variables on Foreign Direct Investment in the Brazilian economy. The chosen macroeconomic variables are Gross Domestic Product (GDP), GDP per Capita (GDPPC), GDP growth rate(GDPGR), Trade ratio(TR), Exchange rate(ER), Inflation (INF) and rate of interest (Ri) as major determining factors. Regression method is applied to assess the functional relationship among these variables. The study is confined to the period of 20 years over 1990-2009 in Brazil. The findings of this study show that there is a strong positive relationship between Ex Rate, GDP, GDPPC and TR to the flow of FDI in the Brazilian economy. However, negative association between GDPGR, INF and Ri to FDI.

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## **LIST OF ABBREVIATIONS**

<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GDPPPP</b>	<b>Gross Domestic Product Per Capita</b>
<b>GDPGR</b>	<b>Gross Domestic Product Growth Rate</b>
<b>TR</b>	<b>Trade ratio</b>
<b>ER</b>	<b>Exchange Rate</b>
<b>INF</b>	<b>Inflation</b>
<b>Ri</b>	<b>Rate of interest</b>
<b>BRL</b>	<b>Brazilian Real</b>
<b>APR</b>	<b>Annual Percentage Rate</b>
<b>BRIC</b>	<b>Brazil, Russia, India and China</b>

# **CHAPTER ONE: BACKGROUND OF THE STUDY**

## **1.1 Introduction**

Foreign Direct Investment is largely viewed as a major stimulus to economic growth in developing countries. It is a device to deal with major growth obstacles such as shortages of financial resources, technology and skills. As such, FDI flow has captured the centre of attention for policy makers in developing countries including Brazil. FDI technically refers to investment made to acquire a lasting management interest (usually at least 10 % of voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor. FDI can take the form of either "green field" investment (also called "mortar and brick" investment) or merger and acquisition (M&A), depending on whether the investment involves mainly newly created assets or just a transfer of management functions from local to foreign firms.

## **1.2 Definition of FDI**

Foreign direct investment, in essence, is simply investment that crosses over international boundaries. This kind of investment, however, is more complicated in practice. Before proceeding further into this paper it is worthwhile to have a clear idea about the basic definitions of what constitutes foreign direct investment and its related jargon.

Foreign Direct Investment (FDI) is the act of a company located in one country acquiring controlling equity of another company or entity located in a second country. The United Nations Conference on Trade and Development's (UNCTAD)

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