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Emerging Markets Queries in Finance and Business

FDI implications on BRICS economy growth

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Abstract

The BRICS economies group, Brazil, Russia, India, China and South Africa are recognized as the most developed economies from the emerging economies. This paper aims to analyze the FDI flows on BRICS economy. The impact of FDI on the host country depends on the size and structure of these flows. In the current economic climate, worldwide there is a competition between the host countries to attract the larger volumes of FDI. The BRICS group offers to foreign investors a number of benefits such as young labor force, cheap labor force, natural resources and big markets. In these emerging economies FDI seem to have a positive impact by contributing to their development.

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1. Introduction

The impact of FDI on the host country represents a subject of intense research. Some researchers concluded that FDI has a positive impact on economic development of the host country and some of then found a negative impact. Romer saw the technology transfer as an input with a special significance and foreign direct investment as a source of technological advance. In this case, the effect of FDI is unequivocally positive. (Romer, 1993)

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De Mello found also a positive effects of FDI on economic growth, both in developed countries and in developing ones, but concludes that the long-term growth in host countries is driven by technology and knowledge spillovers from the investing countries in the host countries. (De Mello, 1999) Blomstrom notes that in order for FDI to have a positive impact on economic growth, the country must have achieved a level of development that enables it to take advantage of the benefits of high productivity. (Blomstrom et all, 1994 a, b, Coe, 2003)

A positive impact of FDI on emerging economies has been confirmed by many researchers (Schneider and Frey, 2005 Carkovic and Levine, 2002, Garibaldi et all. 2002 Neuhaus, 2006). FDI are particularly important for transition economies because these economies have insufficient reserves and the technology and the capital are needed in order to stimulate economic growth. (Billington, 1999, Bevan and Estrin, 2000).

After some points of view from the literature, an emerging country is a country whose economy is at least 1% of global GDP. This feature of emerging economies was supported by the American economist Jim O'Neill who created the acronym BRIC in 2001, formed by four countries: Brazil, Russia, India and China. Jim O'Neill argued his choice by the fact that this group of countries has the potential to reach developed economies primarily because of their size, with large areas and populations. (O'Neill, 2011)

In 2010, South Africa began its efforts to join the BRIC group. In August 2010, it began the formal procedure for the South African integration process in the group. After being formally invited by the group to join the BRIC countries, South Africa officially became a member on 24 December 2010. The group was renamed BRICS -. with "S" to the end, to reflect the accession of South Africa to the expanded group.
According to the World Bank statistics, the BRICS countries hold more than 40% of the world population and occupy a quarter of the world's land area. It follows that, Brazil, Russia, India, China and South Africa together are a powerful economic force.

FDI are considered an active factor for the economic development and an important asset for adapting to market requirements, competitiveness, representing for emerging economies an important element for economic development. (Nistor, 2011) In these circumstances Brazil, Russia, India, China and South Africa, can evolve with the help of foreign direct investment to reach the developed economies.

2. FDI in BRICS economy

Analyzing the FDI inflows in the emerging economies, I observed that the economies of the BRICS group, Brazil, Russia, India, China and South Africa, have attracted large inflows of foreign direct investment. Over the last years, FDI inflows în BRICS economies reached 20% from the world share of FDI in 2012.

China's cheap labor force, the young population of India, Russia and Brazil's natural resources were some of the advantages who had the effect of attracting an increasing amount of FDI in the BRICS economies. In the period before 2000, the FDI inflows in the BRICS economies were low. After 2000, they began to grow recording higher and higher annual grow rates.

In 2001 the FDI inflows to Brazil, had a relatively high level of around 22 billion dollars. This level of FDI inflows was ten times higher than in Russia and four times higher than in India for the same period. However, the FDI inflows were very small compared to China. Also Russia, India and South Africa recorded low levels of FDI inflows in the early 2000s, under 5 billion dollars per year.

In 2002 and 2003, FDI inflows had lower values compared with the rest period, due to the global slowdown of FDI flows. From 2003 to 2008, the FDI inflows grow from 77 Billion to 281 billion dollars, with China and the Russian Federation for the lion's share accounting of growth. (UNCTAD 2013)

Table 1. The evolution of FDI inflows in BRICS countries

Year/ Country	Brazil	Russian Federation	India	China	South Africa
2000	32779,24	2714,23	3587,99	40714,81	887,34
2001	22457,35	2748,28	5477,64	46877,59	6783,92
2002	16590,2	3461,13	5629,67	52742,86	1569,16
2003	10143,52	7958,12	4321,08	53504,70	733,67
2004	18145,88	15444,37	5777,81	60630,00	798,03
2005	15066,29	15508,06	7621,77	72406,00	6646,93
2006	18822,21	37594,76	20327,76	72715,00	-526,76
2007	34584,90	55873,68	25349,89	83521,00	5694,53
2008	45058,16	74782,91	47138,73	108312,00	9209,17
2009	25948,58	36583,10	35657,25	95000,00	7502,06
2010	48506,49	43167,77	27431,23	114734,00	3635,59
2011	66660,14	55083,63	36190,4	123985,00	4242,87
2012	65271,85	50587,56	24195,77	121080,00	4558,85
2013	64045,33	79262,00	28199,45	123911,00	8187,94

Source: UNCTAD, http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx.

The years 2007, 2008 bringed higher annual FDI flows in all five economies, China has recorded a value of 108.312 million dollars. South Africa was the only economy from the BRICS group which in 2006 has faced with the divestiture process, but has also registered higher values starting with 2007. FDI inflows in South Africa were 5.694,53 million dollars, registering an increase of 1180% from 2006.

India began also to record annual FDI inflows over 20 billion dollars starting with 2006. Russia wich has recorded lower levels of FDI inflows until 2003, has begun to attract more and more investors. Starting with 2006, annual FDI inflows exceeded 35,000 million dollars per year.

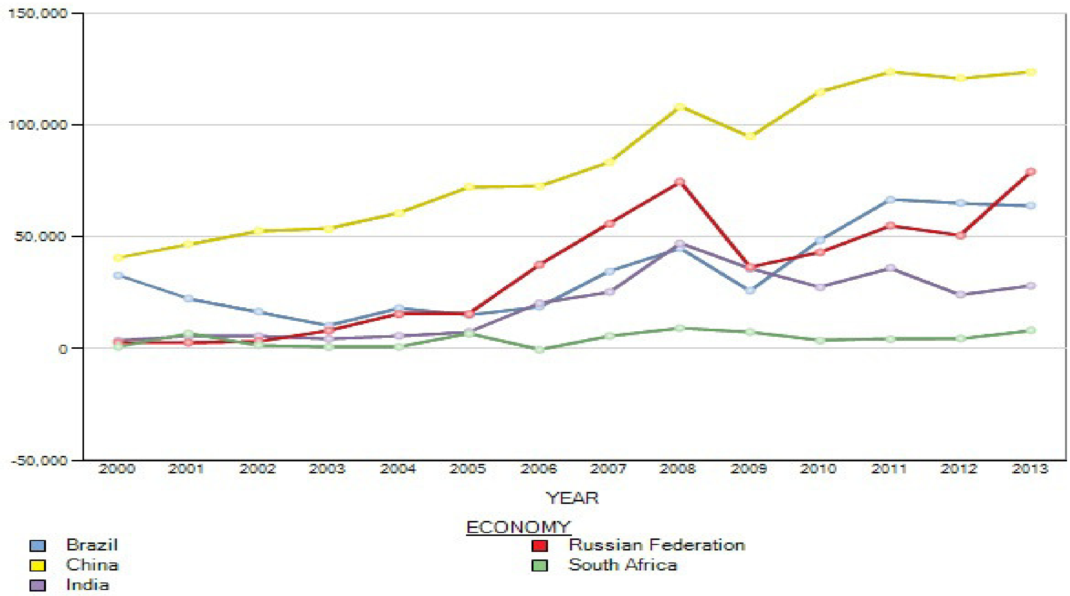

Fig. 1 Evolution of FDI inflows in the BRICS economies between 2000-2013
Source: UNCTAD http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

Inward FDI have begun to record higher values after the year 2000 in all the BRICS group countries, with slight declines from 2001 to 2005 due to the worldwide slowdown of these flows. As can be seen in Figure 1, China leads attracting the highest FDI in the period 2000- 2013. In 2013, when many world economies are still in decline, China's recorded the biggest level of inward FDI, a level of 123 911 million dollars.

These figures reflect the presence of large multinationals in China, giving it a leading position among the most attractive economies for foreign investment. Large potential market, favorable government policies also cheap labor costs have attracted many multinationals companies in industries such as telecommunications, automotive also petrochemicals. At the opposite pole South Africa records the fewest FDI inflows from the BRICS group of countries throughout the period analyzed, followed by India.

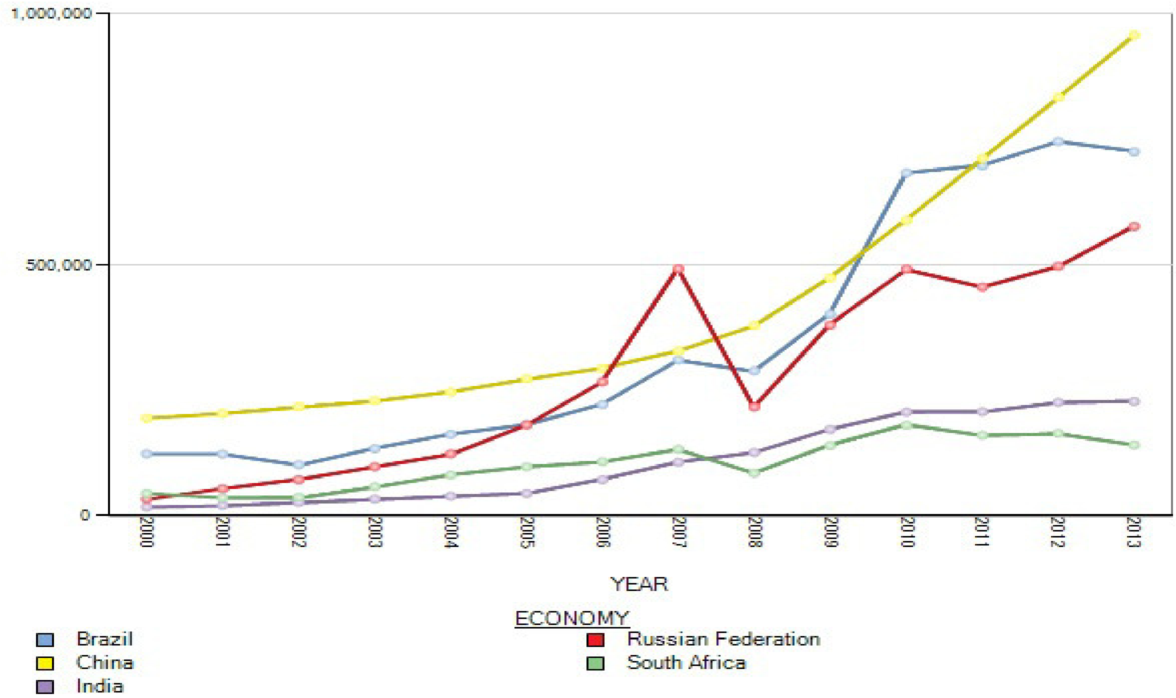

Fig. 2 Evolution of FDI stock in the BRICS economies between 2000-2013

Source: UNCTAD http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx

The figure 2 shows the evolution of FDI stock in the BRICS economies for the period 2000- 2013. It can be noted the high level of FDI stock starting with 2009 when China and Brazil exceed the 400,000 million per year. The stock of FDI in the BRICS economies behaved similar to the FDI inflows, China is leading almost the entire period.

Although during the period 1990- 2013 China crossed two financial crises the FDI stock has grown each year of the period. Starting from a stock of FDI of 20 billion dollars in 1990, in twenty-three years, the stock of FDI reached 957 billion dollars, recording an increase by 4.685%.

South Africa, Russia, India and Brazil have registered lower levels of FDI inflows before 2000, thus explaining the lower level of FDI stock compared to China. The advantages offered by these countries had as effect an increase in FDI flows and consequently of FDI stock in these economies. In 2007, Russia has held the highest level of FDI stock of 491,052 million dollars surpassing China. The year 2008 brings a decrease in the stock of FDI in Russia, in the context of the global financial crisis. In 2010 the Brazilian economy has the highest stock of FDI of the BRICS countries and it was of 682.346 million dollars. India and South Africa registered the lowest levels of FDI stock for the entire period 2000- 2013. According to presented data from UNCTAD in 2013, the BRICS group countries hold 10.30% of the global FDI stock and continue to grow.

Conclusion

Analyzing the evolution of FDI in the BRICS economies I noticed the large volume of these flows in terms of annual flows and FDI stock. The increase of FDI in the five largest emerging economies in the period 2004-2008, shows the rapid pace with which they grow. In the current financial crisis, the data shows that emerging economies have started to grow in 2010, unlike most developed economies, which continue to decline. In the BRICS economies, FDI seems to have a positive impact by contributing to the economic development of these countries to reach developed economies. Further research will examine the impact of FDI on the economies of the BRICS using an econometric model.

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