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A Comparative Assessment of FDI in BRIC Countries with Special Focus on India's Position

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***Abstract*: Foreign Direct Investment has been one of the important elements in the growth strategies of the world's most successful developing nations. The four larger economies: Brazil, Russia, India and China have emerged as strong economic blocks in the world and FDI inflows had contributed substantially in their economic growth. Having evidenced economic growth either directly or indirectly due to FDI inflows, all the four countries have been reforming their institutions to promote FDI inflows. The increasing promotional activities for inviting larger FDI inflows have led to a competitive environment in FDI attraction among these countries. The current study examines the competitive position of India among Brazil, Russia and China in FDI attraction through the following research questions: What is the position of BRIC's FDI in world FDI? What is the status of FDI inflows during the period 2001 to 2011in BRIC countries? How was the performance of BRIC's FDI inflows in contributing to Gross Domestic Product and Gross Fixed Capital Formation? How competitive is India among the other three of BRIC? The study reveals the fact that though India has better scope in FDI attraction, the volume and rate of growth is low while compared to Brazil, Russia and China, while China has out performed and Brazil has attracted good volume of inflows. All the four countries managed to recover during the post- economic crisis, but at a different speed. The current paper thus discusses the position of India among BRIC countries in FDI attraction.**

***Keywords*: FDI inflows, emerging economies, BRIC, GDP (Gross Domestic Product), Gross Fixed Capital Formation.**

I. INTRODUCTION

Over the period, FDI has gained notable importance and wide recognition as a stimulant of economic growth of a country in various forms. According to the World Investment Report (2011), emerging economies together attracted more than half of global FDI inflows in the year 2010. As international consumption and international production has been shifted to emerging economies (BRIC), MNCs are increasingly investing in these countries. To utilize this trend of FDI it becomes important to look back the status of India's FDI attraction position among the other three BRIC countries.

Foreign Direct Investment

IMF and OECD defines FDI in terms of 'Direct investor' and 'Direct investment enterprise' A ***direct investor*** may be an individual, an incorporated or unincorporated private or public enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which have a direct investment enterprise, operating in a country other than the country of residence of the direct investor. A ***direct investment enterprise*** is an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. Direct investment enterprises may be *subsidiaries, associates or branches* that could establish in the foreign country.

Importance of FDI for a developing country's economic growth

FDI inflows benefit the economic development of the host country at large especially to developing economies which need more capital for its economic development. FDI benefits the economic growth directly by substituting capital formation to a country and consecutively contributing towards the country's Gross Domestic Product. It benefits indirectly through transfers of advanced technologies, operational & managerial skills, human capital enhancement etc., these benefits are expected to be positive, although not automatic.

Objectives of the Study

The current study examines the competitive position of India among Brazil, Russia and China in FDI attraction through the following research questions: What is the position of BRIC's FDI in world FDI? What is the status of FDI inflows during the period 2001 to 2011in BRIC countries? How did BRICs FDI perform in contributing to Gross Domestic Product and Gross Fixed Capital Formation? How competitive is India among the other three of BRIC nations in FDI attraction?

During the past two decades FDI plays a very significant role in the global economy. The total stock of FDI of Developing and transitional economies increased from 8% of world GDP in 1990 to 26% in 2006 and peaked to 53% in 2010. (OECD Fact book).It could be stated that FDI has noticeably contributed to the growth of world economy.

Table: 1. Position of BRICs in World's Top 20 FDI recipients

Countries	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brazil	12	12	15	12	14	**	15	12	14	8	5
Russia	**	**	14	14	15	5	10	6	7	10	9
India	**	**	**	**	**	17	**	13	9	16	14
China	6	3	2	2	4	3	7	3	2	2	2

Source: Compiled from UNCTAD FDI statistics on FDI inflows

It is a universal fact and a topic of appreciation, that China has been successful in retaining its position in the top five, except in the year 2001. From the year 2009 onwards it has been sustaining its second place till date, further it is expected to reach the first place replacing the US in the coming years. Brazil has sustained itself between twelfth and fifteenth place in the world's top destinations except in 2006, but improved to fifth place in the year 2011.The year 2006 was the top performing period for Russia, as it reached top five positions in world FDI destinations. On contrast India had fallen to seventeenth place and Brazil had missed the top twenty which had never happened in the study period for both the countries.

In spite of the overall growth trend of India's FDI inflows during its post liberalization period, it has not been in the world's top '20 FDI recipient' until 2008, except an entry to seventeenth place during 2006. Surprisingly post global crisis, India has shown a competitive performance in 2009 occupying ninth position while Brazil was in fourteenth place but India's position suddenly had fallen to sixteenth place in 2010.This sudden fall is due to a heavy decline (around 40 percent) of inflows to service and chemical sector as an impact of global recession. Also, developing countries like China, Hong Kong, Singapore, Thailand, Taiwan, Malaysia etc. had attracted higher FDI inflows than India which is also a reason for this sudden fall.

Contribution of BRIC's FDI Inflows to World's total FDI inflows

BRIC's share of FDI inflows in global FDI inflows have increased from 2.2 percent (excluding Russia due to unavailability of data) in 1990 to 17.7 percent in 2010. FDI inflows in BRIC economies remained stable even during the economic crisis, and reflecting the longer term views on the growth potentials of the BRIC and the soundness of their financial systems. Since it had been widely proved and accepted that FDI inflows accelerate economic growth, the competition had become stronger within countries in attracting larger FDI inflows.

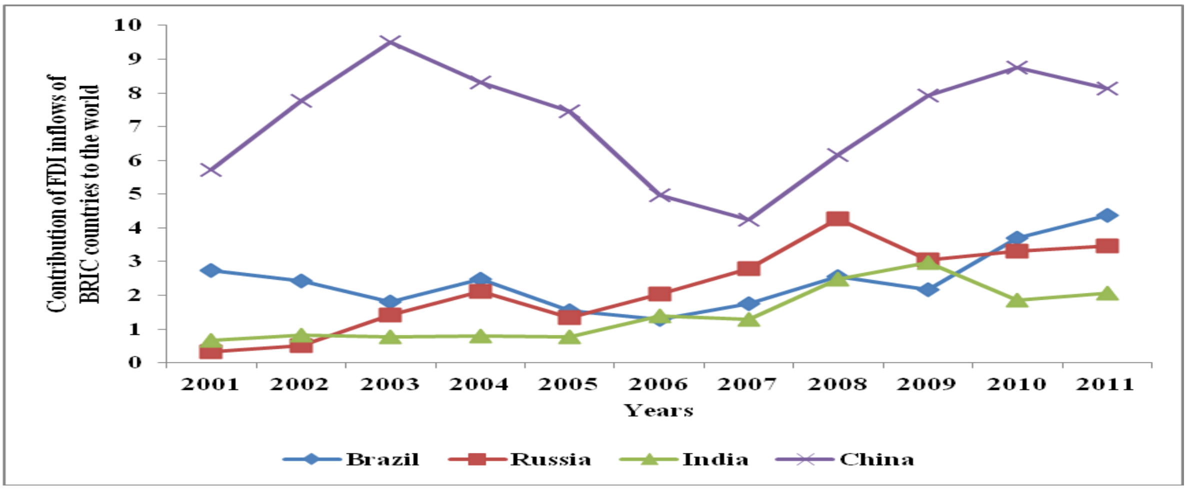

Figure 1: Percentage share BRICs FDI inflows in World's total FDI inflows

The contribution of FDI inflows into BRIC countries was recorded at 9.49 percent to that of total worldwide FDI inflows at the beginning of the year 2001 and in that China's contribution alone was 5.73 percent, Brazil contributes 2.75 percent, India and Russia contributes 0.67 and 0.34 percent respectively. The share of FDI inflows of BRIC into the world total kept rising even during the crisis and was recorded at 18.05 percent in 2011, where China contributed to 8.13 percent, Russia, Brazil and India contributed at the rate of 3.47, 4.37 and 2.07 percent respectively. For the first time in 2011 developing countries and transition economies together had attracted more than half of Global FDI inflows in contrast to continuous decline of FDI inflows in developed countries (World investment Report 2011). Among the developing nations China, India, Brazil and Russia holds a large share of FDI inflows and in which BRICs have a major share.

FDI Inflows in BRIC Countries

Amongst all four, China remains the 'top-ranked destination' by foreign investors as per 2010 *World Investment Report* by UNCTAD, and from the below figure it can be noted that not only in 2010 but throughout the study period.

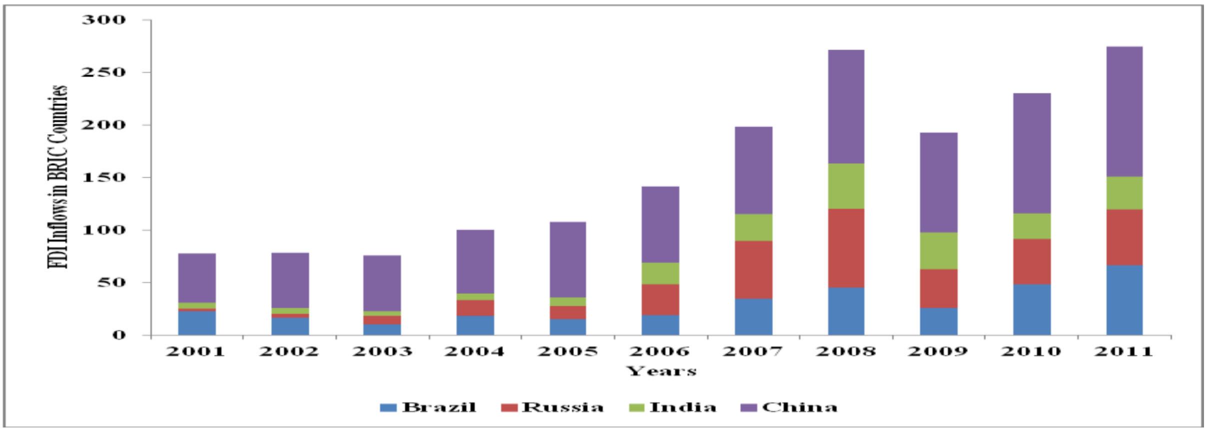

Figure: 2 FDI Inflows in BRIC Countries (Values in US $ Millions)

The FDI inflows to Russia had grown massively in the year 2008 which shows that the conditions to attract FDI in Russia were conducive even during the global recession and Brazil had a fluctuating trend until 2006; it had overtaken India from the year 2007 onwards amounting to US $ 6666 billion in 2011. The FDI inflows of China had been recorded at US $ 46.88 billion in the beginning of the year 2001 and it has positive inflows throughout the study period. Except a slight sluggishness in year 2009 but had bounced back in 2011 to reach the highest of the decade to US $ 123.99 billion.

FDI inflows of India was recorded as US $548 billion in the beginning of the year 2001 and had showed a considerable growth from the year 2006 and received the decades highest inflows as $43406 million during 2008 with an overall growth rate of 47.573percent.The global financial crisis hit the country heavily as more than 50 percent of India's FDI inflows were into service sector which were from developed countries. Post crisis recovery was very slow while compared to China, Russia and Brazil.

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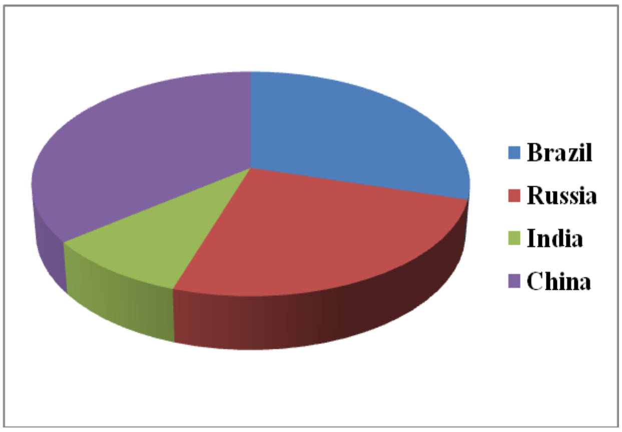
FDI Inflows Stock and Growth of FDI Inflows Stock of BRICs

A country's FDI stock will enable economic growth by increasing trade activities and a rise in GDP consecutively.



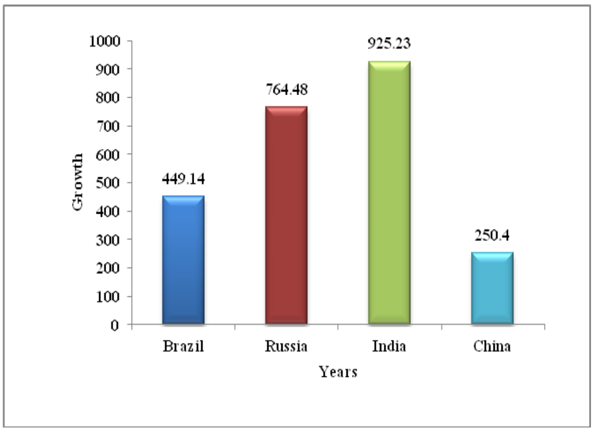


Figure: 3 Aggregate volume of FDI Inflows Stock and Growth of FDI Inflows Stock of BRICs (In terms of volume)

India had seen a considerable growth from the year 2001 to 2011 and stands high among the other three BRIC, though it had a least share in terms of aggregate volume of FDI inflows stock, among the other competitors. but in terms of volume of FDI inflows stock holding China as always had held larger volume of FDI stock amongst all the other three countries, except in the year 2010, where Brazil holds larger FDI stock than China recorded at US $ 674764 million. Russia stands second in growth terms recording a growth rate of 764.48 percent.

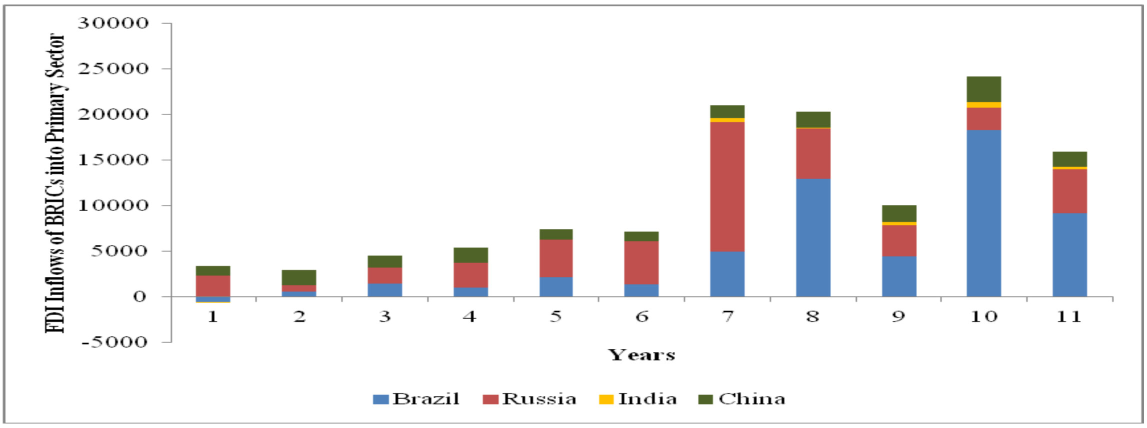
Sector-Wise Investment

During the past two decades there has been a change in the global FDI flows into the service sector as most countries, both developed and developing have opened up their service sectors to foreign investment, and FDI inflowsin to these sectors surged (UNCTAD 2005). To understand the composition of FDI attraction in major sectors of FDI inflows, this section involves discussion on i. Primary, ii. Secondary and iii.Tertiary sectors of FDI inflows in BRIC nations.

i. Primary Sector

FDI in Primary sector for Brazil rose from US $-538.98 millions in 2001 to US $2194.50 millions in 2005 with a highest growth rate at 1381.86 percent of the other three countries.

Figure.4. FDI Inflows into Primary Sector (Values in US $Millions)



Primary sector includes production of raw materials and basic foods such as agriculture, farming, and oil etc., FDI inflow into primary sectors had increased to a greater extent in Brazil specifically during 2010 followed by Russia which had reached its highest growth in 2008. Compared to other three nations India had a very minimal amount of FDI inflows in primary sector even though it had recorded a significant growth when compared to 2001 and 2011. Even China has recorded a moderate and slow growth in case of primary sector. Until 2007 Russia seems to have dominated the Primary sector and from 2008 it was Brazil who had received highest inflows especially in 2010.

ii. Secondary Sector

FDI inflows in secondary sector include manufacturing activities like automobiles, chemical, engineering aerospace etc.

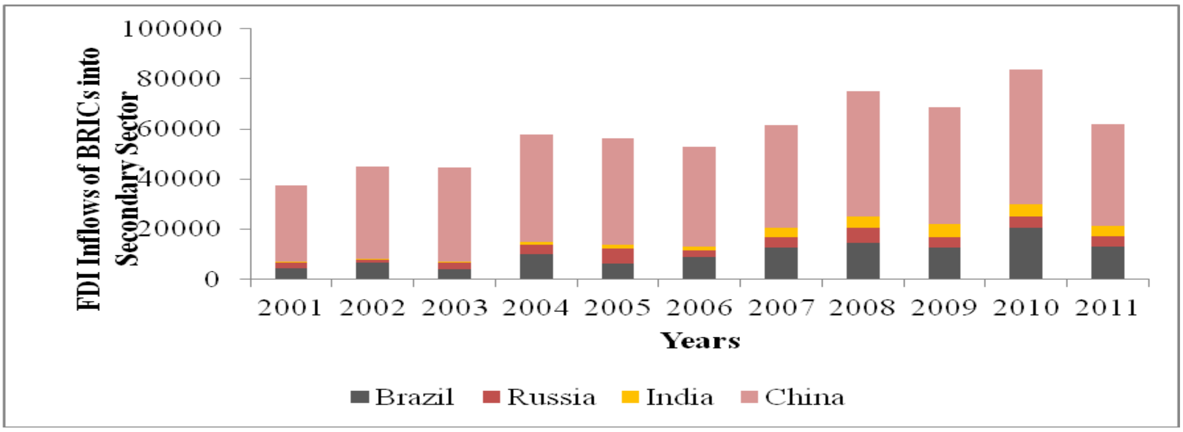


Figure 5. FDI Inflows of BRICs into Secondary Sector (Values in US $ Millions)

China was a star performer right from the beginning of the study period and had a steady increase throughout the period at 32 percent growth. Followed by China's commitments to World Trade Organization WTO) to a phased opening up of services to foreign participation during the five years following accession in December 2001, the share of secondary sector improved many fortune global 500 companies which are now present in China. Whereas Brazil though started receiving FDI late from the year 2004 the rate of growth was appreciable till 2009 and also managed post crisis with minimal reduction in growth rate.

Although India had received a lesser amount of FDI inflows in secondary sector when compared to China until 2003 but from 2004 onwards it had started receiving an increasing inflows from the year 2008 and face a decline from 2009 to 2011.The diminishing growth of India's FDI in manufacturing sector, in spite of the country's highest young population and vast landscape are the macro-economic factors viz., the declining growth rate of GDP, current account deficit, monetary instability and lack of better institutions. poor ranking in world bank's "ease of doing business" due to non-transparent and lengthy legal procedures; partial infrastructural developments, lack of improvement in government efficiency etc.,

iii. Tertiary Sector

The tertiary sector of the economy is the service industry. India's major share of FDI inflows comes in tertiary sector and also had shown high growth while compared to 2001. FDI inflows for Brazil in Tertiary sector rose from US $7786.32 million in 2001 to US $12924.40 millions in 2005. The tertiary sector of India has attracted larger foreign investment interest in the recent years. As per a report by UNCTAD, in 2007, the services sector has become the main destination for off-shoring of most services as back office processes, customer interaction and technical support. However, the Indian services have also started venturing into new territories like reading medical X-rays, analyzing equities, and processing insurance claims.

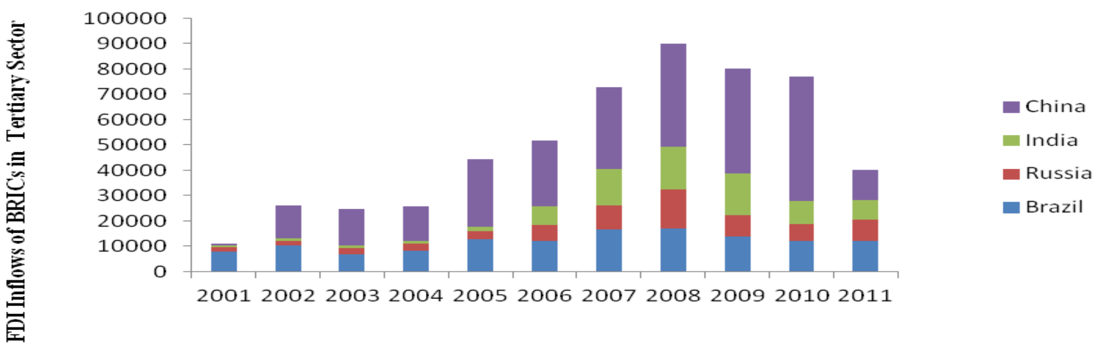


Figure. 6. FDI Inflows into Tertiary Sector (Values in US $Millions)

The growth path for a developing economy is normally from agriculture to manufacturing and to service sector. Most developed economies have been successful in such pattern of growth, Among the BRIC China had been successful in the similar pattern of growth, whereas India seems to have skipped the manufacturing sector as the FDI inflows in manufacturing sector had not shown a significant growth though it has developed service sector.

Contribution of BRICs FDI inflows towards economic growth

FDI benefits the economic growth directly by substituting capital formation of a country and consecutively contributing towards Gross Domestic Product of a country. Therefore in the present study to analyses the performance or impact of FDI, the contribution of FDI inflows towards BRIC country's economy is measured as (a) a percentage share of FDI inflows to Gross Fixed Capital Formation and (b) a percentage share of Gross Domestic Product.

FDI inflows as a Percentage of Gross Fixed Capital formation

Capital formation is an important determinant of economic growth. While domestic investments add to the capital stock in an economy, foreign direct investment (FDI) plays a complementary role in overall capital formation by filling the gap between domestic savings and investment. Hence the present study analyses the contribution of FDI to BRIC country's Gross Domestic Capital Formation as one of the prime contributory factor of FDI inflows.

A common measure of the relative size of FDI is the "FDI/capital formation ratio", given by the amount of FDI inflows in one year divided by the total fixed asset investments made by foreign and domestic firms in the same year. FDI flows expressed as a percent of GDCF can provide a crude measure of the importance of FDI in an economy's capital formation. The share of inward FDI inflows as a percentage of GFCF measures the relative weight of FDI in total aggregate investment taking place in the host economy. Total investment includes both public and private sector investment in the host country. The contribution of FDI in the capital assets formation of a nation is portrayed in the following table.

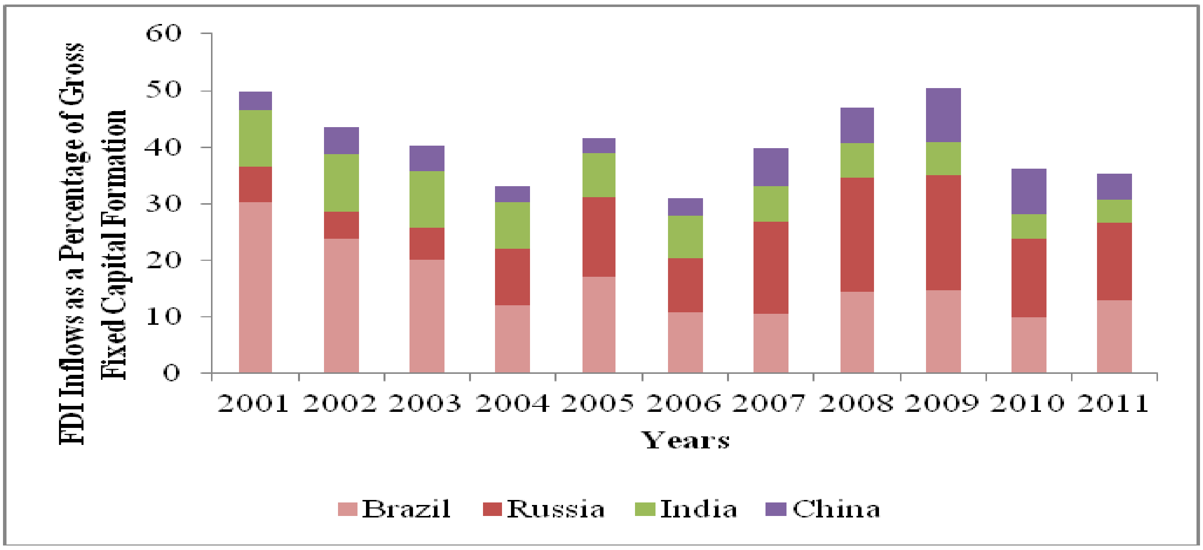


Figure. 7. FDI Inflows as a Percentage of Gross Fixed Capital Formation (Values in Percentage)

Contribution of FDI inflows as a percentage of Gross Fixed Capital formation of China had been highly fluctuating throughout the study period from 2001-11. China had initially recorded 3.3 percent of FDI inflows in 2001 and had contributed at the rate of 6.6 percent in 2007 and 9.7 percent in 2009, but later declined to 4.5 percent in 2011. Whereas Russia's contribution of FDI inflows towards Gross Fixed Capital Formation has been in the upswing until 2005 at 14.2 percent, further the contribution increased to 20.3 percent in 2009, but shows a decline in the later period of the study. Amongst the four countries, Brazil's FDI inflows have contributed at large towards Gross Fixed Capital formation at the rate of 30 percent in the year 2001 which had supported Brazil's huge current account deficit. But started reducing from the year 2002 till 2007 with a negative growth of -57 percent.

In case of India, the percentage share of FDI inflows to Gross Fixed Capital Formation, had been stable at the rate of 10 percent for the first three years and had declined gradually, for the rest of the years, reduced to 4.1 percent in 2011. With a poor fiscal balance, India badly needs the contribution of FDI towards building up capital formation and Gross Domestic Product but, excess tax benefit and supportive repatriation policies of these governments had resulted in outflow of MNCs profits to their home countries, rather than retaining this might be the reason for the reduced contribution of FDI inflows towards GFCF in India and Brazil as well.

FDI inflows in terms of contribution to GFCF, Brazil stands high in the beginning and declined at the end of the period. Athreye and Kapur (2001) have emphasized that since the contribution of FDI to domestic capital formation is quite small, growth-ledFDI is more likely than FDI-led growth. This is so, as increased economic activity expands the market size, offering greater opportunities for foreign investors to reap economies of scale in a large market economy like India.

FDI inflows as a Percentage of Nation's GDP

A country with a ratio of FDI to GDP that is greater than one is reckoned to have received more FDI than that implied by the size of its economy. It indicates that the country may have a comparative advantage in production or better growth prospects reflecting larger market size for foreign firms. However if the country has the ratio value of less than one may be protectionist and backward or may possess a political and social regime that is not conducive for investments. Overall, FDI – GDP ratio is an index of the prevailing investment climate in the host economy.

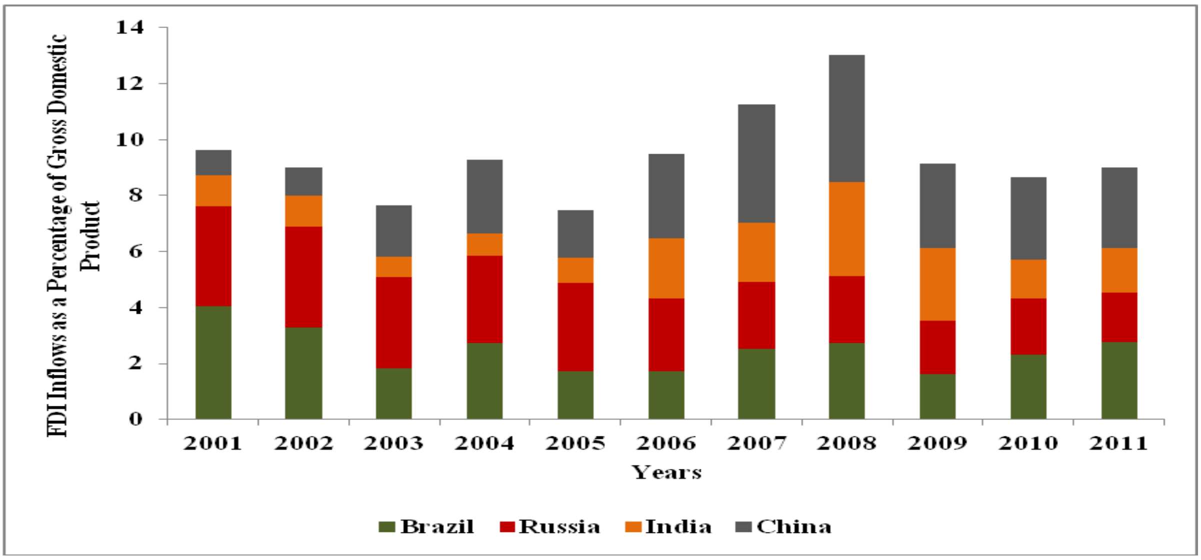


Figure 8. FDI inflows of BRICs as a percentage of Gross Domestic Product (Values in Percentage)

With respect to the contribution of FDI inflows to a country's Gross Domestic Product, China has contributed the highest with a growth rate of 218.89 percent during the period, followed by India with a growth rate of 43.36 percent. Also China had a considerable and steady increase in its percentage share of FDI inflows to GDP till 2008. With the due impact of the global economic crisis and the consecutive reduction in FDI inflows during 2009, its contribution was reduced to 50 percent which came down to 29 percent when compared to the previous year. However China has recovered in total FDI inflows during post crisis period but stagnated in terms of contribution to the country's economic growth that is GDP.

Similar to China the share of FDI inflows to India's GDP had shown improvement until 2008 with little fluctuations, the contribution of FDI inflows to GDP during 2009 had reduced to 2.63 percent, from 3.38 percent in 2008 had not improved during the post crisis period. But the GDP of India had shown a considerable rise in the year 2010 and 2011 which shows a positive impact of FDI inflows. Comparatively India and China had attracted more FDI in proportion to its GDP.

Among the four countries Brazil has shown a remarkable contribution at 4.05 percent in 2001, but had declined at the rate of 1.84 percent in 2003. Until 2008 the percentage share of FDI inflows of Brazil towards its GDP has faced ups and downs, like all the other three countries. While compared to the recovery of all other BRIC nations, Brazil had recovered fairly better by increasing its share of FDI to GDP at 2.76 percent. Whereas, in case of Russia though it has recovered very little in 2010 by recording 2 percent share in 2010 from 1.88 percent share in 2009 and had again faced a decline during 2011.

II. CONCLUSION

Amongst all four, China had been in the lead in terms of FDI inflows, stock, and in the right pattern of sectoral flows. Also, China has retained its position throughout the study period and was highly immune to global recession due to the tremendous potential of its huge domestic market, with a competitive growth rate and FDI enhancing growth package, which the Chinese government implemented. Brazil and Russia also had a fair growth in different spheres during the study period. Although India does not enjoy a competitive position in FDI attraction on an overall basis among Brazil, Russia and China; India does possess certain prominent competitive strengths such as the second largest economy in BRICs; growing domestic markets; increasing population with more educated and young people, increasing labour force etc., with these strengths if India can take required measures to improve the Balance of Payments position, improve trade and improve business regulations and legal protection to foreign investors. If the government of India takes speedy and effective measures to overcome its challenges in FDI attraction and given a few years with those developments, India will definitely overtake Brazil and Russia and its increase competitiveness at par with its global competitors.

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ANNEXURES

TABLE: FDI Inflows Stock of BRICs (Values in US $ Millions)

Year	Brazil	Index	Russia	Index	India	Index	China	Index
2001	121948	100	52919	100	19675.9	100	203142	100
2002	100863	83	70884	134	25826.3	131	216503	107
2003	132818	109	96729	183	32549.2	165	228371	112
2004	161259	132	122295	231	38060.2	193	245467	121
2005	181344	149	180228	341	43201.6	220	272094	134
2006	220621	181	265873	502	70870.3	360	292559	144
2007	309668	254	491052	928	105791	538	327087	161
2008	287697	236	215755	408	125212	636	378083	186
2009	400808	329	378837	716	171218	870	473083	233
2010	674764	553	490560	927	204692	1040	587817	289
2011	669670	549	457474	864	201724	1025	711802	350
Growth	**449.14**		**764.48**		**925.23**		**250.40**	

Source: World Investment Report, UNCTAD 2001-11

TABLE. FDI inflows as a Percentage of Gross Domestic Product (Values in Percentage)

Year	Brazil	Index	Russia	Index	India	Index	China	Index
2001	4.05	100	3.56	100	1.13	100	0.90	100
2002	3.28	80.95	3.62	101.69	1.11	98.23	1.00	111.11
2003	1.84	45.34	3.24	91.01	0.73	64.60	1.85	205.56
2004	2.73	67.50	3.12	87.64	0.81	71.68	2.61	290.00
2005	1.71	42.18	3.17	89.04	0.91	80.53	1.69	187.78
2006	1.73	42.67	2.61	73.31	2.14	189.38	3.00	333.33
2007	2.53	62.48	2.39	67.13	2.11	186.73	4.24	471.11
2008	2.73	67.29	2.39	67.13	3.38	299.12	4.52	502.22

2009	1.63	40.22	1.88	52.81	2.63	232.74	2.99	332.22
2010	2.32	57.33	2.00	56.18	1.40	123.89	2.93	325.56
2011	2.76	68.18	1.76	49.44	1.62	143.36	2.87	318.89
Growth	**-31.85**	**-**	**-50.56**	**-**	**43.36**	**-**	**218.89**	**-**

Source: UNCTAD FDI statistics

TABLE. FDI Inflows as a Percentage share of Gross Fixed Capital Formation (Values in Percentage)

Year	Brazil	Index	Russia	Index	India	Index	China	Index
2001	30.3	100	6.2	100	10.0	100	3.3	100
2002	23.8	78.55	4.7	75.81	10.3	103.00	4.7	142.42
2003	20.0	84.03	5.6	90.32	10.0	100.00	4.6	139.39
2004	12.0	60.00	10.0	161.29	8.3	83.00	2.8	84.85
2005	17.0	141.67	14.2	229.03	7.7	77.00	2.7	81.82
2006	10.7	62.94	9.5	153.23	7.7	77.00	2.9	87.88
2007	10.5	98.13	16.2	261.29	6.4	64.00	6.6	200.00
2008	14.5	138.10	20.2	325.81	6.0	60.00	6.2	187.88
2009	14.7	101.38	20.3	327.42	5.8	58.00	9.7	293.94
2010	9.9	67.35	13.8	222.58	4.3	43.00	8.2	248.48
2011	13.0	131.31	13.6	219.35	4.1	41.00	4.5	136.36
Growth	**-57.09**	**-**	**119.35**	**-**	**-59.00**	**-**	**36.36**	**-**

Source: UNCTAD FDI statistics