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Contribution of outward fdi to the world investment: Where do bric nations stand?

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Abstract
The global investment landscape has changed tremendously due to the regular deregulation and liberalization regimes of the governments of various nations over the last few decades. Generally developing countries are the recipients of FDI, but recently they have emerged as the source of FDI too to the world. The present paper empirically analyses the patterns, growth and the outward-inward ratios of the outward foreign direct investment (OFDI) stocks from the BRIC nations which are Brazil, Russia, India and China. The emergence of outward foreign direct investment perspective in the BRIC Nations is also delved into.

Keywords: foreign direct investment, transnational corporations, developing countries, BRIC.

Introduction
The relationship of FDI and economic growth and development of developing countries has been extensively established in the literature. The funds generally flow from the developed nations to the developing nations, but the impact of the phenomena of funds flowing from developing countries towards the developed or the other developing countries needs an extensive study. Many transnational corporations from the developing economies have gained technological knowledge and due to firms' specific advantage, have expanded abroad resulting in outward flows of foreign direct investment. After 1990, there was a shift in the investment motives, sectors, ownership modes and the destination. They became more privately-owned except for natural resources where large investment was required and were still state-owned. Greenfield investments and Merger and Acquisitions were the dominant. The service sector (finance, banking etc.) started taking over the manufacturing sector and natural resources sector. The destinations were not only the developing economies, but in the developed economies also where these enthusiastic developing nations transnational corporations started investing. Asset seeking investments in the developed economies gained momentum, with the motive of accessing research and development (R&D), marketing tactics, technology, brands and managerial capabilities. In this context, it becomes significant to analyse the FDI from the BRIC countries.

Literature review
Battat . (2005) [4] examined that many developing countries are found to be offering FDI to other developing countries. The major reasons behind this were found to be the reforms in the policies of various nations, reduction in the capital controls, promotion of industrialization and the firm specific advantages. These developing countries come to a positive situation where they can increase their outward FDI and invest in other emerging and developing economies. Ayukt *et al*. (2004) [3] proposed that the investment development path (IDP) framework which was first put forth by John Dunning, explain that initially the emerging transnational corporations will invest in the market and resource seeking ventures, in other developing countries or the neighboring countries. Afterwards, when this target is achieved then they would invest and expand their activities all over the world. Findlay (1978) suggested that the technological gap between the multinational firms and the domestic firms would be the deciding factor about the spillover of the FDI. The larger was the difference in multinationals and the domestic firms' technological capabilities, the more

would be the spillover. Chudnovsky *et al* (2000) [7] advocated a third wave of the outward foreign direct investment. The period was characterized where the Asian multinational corporations were in competition with the western multinational corporations. Some of them would be successful in having more outward foreign direct investment as compared to the inward foreign direct investment which would result in net outflow of foreign direct investment.

Objective

The objective of the study is to analyze the trends of outward FDI stocks of the BRIC nations *viz*. Brazil, Russia, India and China.

As a corollary to it, the study also attempts to analyse outward to inward FDI stock ratios and the growth rate of the outward FDI stocks with relation to these countries.

Research methodology

The study has been divided into two sections. The first section deals with the historical and contemporary background of the coming up of the concept of OFDI in the BRIC countries. Section 2 deals with the empirical analysis, where the OFDI stocks of the various BRIC countries are compared over a period of time. Further the ratio of outward to inward stock has been calculated and compared. The growth rate of the various BRIC countries is calculated, analyzed and assessed. Statistical measures like percentages and ratio analysis are employed. The period of study is from 1997 to 2014 for the BRIC Nations which are Brazil, Russia, India and China (mainland).

Section 1: Historical and contemporary perspective of outward foreign direct investment of the BRIC Nations

India started investing abroad as early as in 1955, with Birla establishing a textile mill in Ethiopia in early 1960s and Jay Engineering Works investing in Sri Lanka. Although there were significant investments abroad in the 1960's, they were limited to small joint ventures due to the restrictive FDI policies of India. The major countries where FDI was made were developing countries such as Kenya, Malaysia, Nigeria, Uganda, Thailand and Sri Lanka. The liberalization policies increased the investment but the strong policies of the government discouraged fully owned subsidiaries and encouraged joint ventures. The government treated FDI as an instrument of export promotion which focused on market seeking FDI to the neighboring countries, Middle East and some countries of Africa.

The Indian FDI can be divided into three (3) phases (Hansen 2010) [16]. The first phase (1970s to 1980s), where short modest investments were made in Africa and Asia through joint ventures. The major Indian multinationals who made Investments abroad were Birla, Thapar, Modi, Godrej, Tata Group, Usha Martin's black, JK group, Kirloskar, Hindustan machine tools, Sara Bhai, Mahindra and Mahindra, Nowrosjee Wadia, and Mafatlal. The second phase was from 1990 to early 2000, where the FDI policies were liberalized and there was emergence of new Indian transnationals which first encouraged large inward FDI through LLL - linkage, leverage and learning approach (Matthews 2002). In the third phase, after early 2000, there was a new trend regarding the growth and industrial composition of OFDI.

Brazilian companies started internationalization in the 1970s. The reasons were the Brazilian economic slowdown and the 1980 crisis. Many Brazilian multinationals came up in the sectors of banking and engineering services which led to the increase of exports. Multinationals were also involved in oil exploration and its production as well as in the agriculture industry. The major destinations were Africa, Latin America and the Middle East. Regularization and trade liberalization led to a huge increase in the outward foreign direct investment.

Chinese companies started investing abroad in 1979. They increased their share of OFDI and the growth was led by linkage, leverage and learning (LLL) model as was in the case of India. The transfer of technology from the foreign multinationals resulted in the spillover effects on the domestic economy of China.

Russia opened up for outward foreign direct investment in 1987. In 1990s the investment environment was not very conducive due to the USSR breakup, which was followed up by a recession. Many Russian firms converted into transnational corporations overnight due to the location as those areas got the status of states. The Russian MNCs started elaborate internationalization from the early 2000s and catches up with the BRIC countries in the outward foreign direct investment scenario.

It was found that although India and Brazil started early internationalization as compared to China and Russia, they fell behind after the year 2007.

Comparing the strategies of BRIC nations' multinational corporations, it is found that only a small number of subsidiaries were set up abroad and mainly in the manufacturing industry. The major objective of these corporations was market seeking rather than efficiency seeking, where low labor cost is looked for.

The Investment Development Path (IDP) model propounded by John Dunning (1981) [10] confirmed these stages of evolution of MNCs from the developing economies. According to the model, in the first stage of economic development, the economy goes for little or no OFDI and investments abroad. In the second stage the inward FDI is attracted with a small OFDI, making the country a net importer of FDI. In The third stage, due to technological advancements and low labor cost, the country is able to attract large amounts of FDI and also starts investing substantially abroad but still it remains to be the net importer of FDI. The fourth stage is marked by a situation where the country becomes more developed and starts investing more outside as compared to the inward FDI and then becomes the net exporter of FDI. The fifth stage and the last stage shows a country as a post-industrial country where it balances its inward and outward FDI.

Some of the common features of the MNCs of the BRIC nations are that the ownership is both private and the state owned. The size of their investments is not very large as compared to the developed economies. Moreover, there is more control of the government and the destinations were not very far off, generally neighboring countries and little beyond them. Further, they invest mainly in the manufacturing sector as against the developed countries who invest in the service sector also.

Section 2
Empirical analysis

Table 1: Outward FDI stock from BRIC countries (Brazil, Russia, India and China) *($ millions)*

Year/ Countries	Brazil	Russia	India	China (mainland)
1997	7230	6410	846	20416
2000	51946	20141	1859	27212
2007	129840	255211	29412	95799
2008	162218	202837	61765	147949
2009	157667	248894	77207	229600
2010	180949	433655	92407	297600
2011	202586	362101	111257	365981
2012	232848	413159	118167	509001
2013	293277	501202	119838	613585
2014	316339	431865	129578	729585

Source: UNCTAD, various issues

Table 1 shows the outward FDI stock of the BRIC countries from the period starting from 1997 to 2014. It is observed that the overall OFDI stock from the BRIC countries registered a good expansion from 2000 to 2007, due to the liberalization and deregulation regimes of the governments of various countries.

Brazil's OFDI stock increased at a very fast pace from 1997 to 2000 and the increase was 7 times. Then in 2007, the OFDI stock doubled itself but afterwards, the increase was slow but consistent, and became more than double in 2014 from the amount it was in 2007.

OFDI stock from Russia showed three times increase in the period of 1997 to 2000.The increase was 13 times in 2007 which was very impressive. An unstable increase in the OFDI stock was observed after 2007, with the decrease in 2008, 2011 and 2014. But when compared from the year 2007, it had doubled itself in 2014.

The Chinese OFDI stock registered 1.3 times increase over the period from 1997 to 2000. Again, it showed an increase of 3.5 times during the period of 2000-2007. The Chinese OFDI constantly witnessed a rising trend till 2014.

India's FDI stock increased by two times, from the period 1997 to 2000. From 2000 to 2007, there was an impressive increase by 16 times. After 2007 also, India was able to maintain its increase of outward foreign direct investment. But in spite of expanding OFDI stock, India was the lowest in absolute terms, where Russia was 8 times higher, Brazil four times higher and China three times higher than India in 2007. But India followed the path of increasing the OFDI stock and in 2014, the investment increased more than 4 times from what it was in 2007.

Thus, at the verge of financial crisis, Russia was the major investor abroad followed by Brazil, whereas India and China lagged behind.

Table 2: Outward to inward FDI stock ratio of BRIC countries *(in percentage)*

Year/ Countries	Brazil (%)	Russia (%)	India (%)	China (mainland) (%)
1999	7.4	51.9	6.5	8.4
2007	40.0	75.4	38.6	29.3
2011	30.3	79.2	55.2	51.4
2012	33.1	101.1	52.2	61.1
2013	40.4	87.0	52.8	64.1
2014	41.9	114.0	51.3	67.2

Source: Authors Calculation, UNCTAD, World Investment Report, various issues

Table 2 shows the outward to inward FDI stock ratios of the BRIC countries specifically for the period 1999 to 2014. It was found that India and Brazil had the lowest ratio in 1999, with 6.5 and 7.4 respectively. Russia had the ratio 51.9, which was very high. In 2000 India, China and Brazil increased their ratio but still they were lower than Russia which was 75.4. In 2011, India and China picked up and started following the ratio of Russia but Brazil's ratio was the lowest with 30.3. In 2012, Russia increased its ratio to 101 and India and China followed it with 52.2 and 61.1 respectively, but still Russia was at the top. There was a decline in the ratio of Russia in 2013 but in 2014 again it picked up. India and China were having almost constant ratios in 2013 as well as in 2014. Brazil showed a little improvement by picking up the ratio from 2011 to 2012, but still it had the lowest ratio. In 2013 and 2014, Brazil showed an improvement in its outward to inward FDI stock ratio with 40.4 and 41.9 respectively, but again it was with the lowest ratio amongst the BRIC countries. Brazil lagged behind India, China and Russia even in 2014 in terms of outward to inward FDI stock ratios.

Table 3: Rate of growth of outward FDI stock of BRIC countries *(In percentage)*

Year/ Countries	Brazil (%)	Russia (%)	India (%)	China (mainland) (%)
2008 over 2007	24.9	-20.5	110.0	54.4
2009 over 2008	-2.8	22.7	25.0	55.2
2010 over 2009	14.8	74.2	19.7	29.6
2011 over 2010	12.0	- 16.5	20.4	23.0
2012 over 2011	14.9	14.1	6.2	39.1
2013 over 2012	25.9	21.3	1.4	20.5
2014 over 2013	7.8	-13.8	8.1	18.9

Source: Authors Calculations, UNCTAD, various issues

Financial crisis in 2008-09 strongly affected the OFDI stocks. In table 3, it can be observed that Russia had the most unstable stocks, and uneven recoveries are observed. In 2008, there was a decrease of 20% and in 2011 again 17% decrease was observed. In the period during 2009 and 2010, a strong recovery is observed wherein 2009 it goes to 22% increase and in 2010, a remarkable 74% growth rate is observed which was due to new investments made abroad in

2010. This clearly indicates that the crisis had a strong impact on the Russian economy which was more than any other BRIC nation. After the decrease in OFDI stocks in 2011, slowly the Russian economy recovered and started growing its OFDI stocks. The growth was modest and not very high, but again in 2014, it dropped by 13% which can be attributed to the depreciation of Ruble. All this indicates an unstable OFDI stocks expansion of Russia.

Chinese OFDI stocks seem to be the most stable amongst the BRIC countries during the study period. The figures indicate that China was least affected by the crisis. The growth rate was 54% and 55% in 2008 and 2009 respectively. Although it fell in 2010, still it was not negative, and then China reflected its growth rate with a sudden increase in 2012, but again came down in 2013 and 2014. Chinese OFDI stocks have been backed by their strong currency, Renminbi, which officially stated to be undervalued.

The OFDI stocks of Brazil also show a flickering trend. They grew at 25% in 2008 and this high growth was attributed to inter-companies' loans, new acquisitions in natural resources and the mining industry. But due to the worldwide crisis, there was a decrease by 2.8% in the OFDI stocks in 2009. The cross-border merger and acquisitions of Brazilian companies sharply decreased in 2009. From 2010 onwards it started regaining and slowly increased the growth rate and came to 26% growth rate in 2013. But again in 2014, the growth rate declined to 7.8% which depicts the instability of the OFDI stocks of Brazil.

India's OFDI stocks grew at a very fast pace till 2007 and in 2008 it increased by an impressive 110% and was termed as one of the fastest growing OFDI stocks. But there was a sudden drop in 2009, and the growth rate came to 25% and after that it started decreasing. In 2012, the growth decreased to a level of 6% and in 2013 it came to 1.4%. The reasons for this can be attributed to the heavy borrowing of dollars for financing the cross-border merger and acquisition. Along with that there was rupee depreciation and obtaining the credit became difficult. In spite of this, India and China were least hit by the financial crisis as compared to Russia and Brazil in the group of BRIC nations.

Conclusion

The FDI from the BRIC Nations have contributed substantially to the growth of the developing and emerging nations worldwide in recent years. Among BRIC countries, Russia was the largest outward investor in 2007 with 12th rank followed by Brazil (19th) China mainland (23rd) and India (34th). From the period 2007 to 2012, China with 12th rank was the most prominent source of FDI followed by Brazil (18th) and India (23rd), as per the UNCTAD data. The governments of various BRIC nations have promoted OFDI through various policies, so as to get the advantages associated with FDI. The research has policy implications also where governments can consider targeted OFDI policies as is with the case of inward FDI.

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