An Assimilated Study of Literature on the Brics Economies and its Scope for Foreign Direct Investment

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Abstract-This article emphasizes the potential of the BRICS countries to swap the equilibrium of the world's economic intensity. There are enormous literature highlighting the possibilities of the pentad economy. This study assimilates the facts showcasing the importance of FDI in structuring the growth of the BRICS countries and thus helping the researchers to get an overview.

Key Words: BRICS, OFDI, IFDI, MNC's.

I. INTRODUCTION

The BRICS countries namely Brazil, Russia, India, China and South Africa are recognized as the most developed economies amongst the emerging economies. According to Andreff, W. (2016) the early 2000's saw an increase in inward and outward FDI from post – communist and fast-growing developing countries. BRICS economies are among the 10 largest economies in the world, both by land mass and population. The exciting facts about the BRICS grouping is the five countries' huge domestic markets, a factor that has not only helped them reap the benefits of strong growth momentum over the last few decades and will also do so over the decades to come as well, but has also helped them diminish their financial crisis better than many more developed economies. These huge domestic markets also help differentiate the pentad from other emerging economies because a successful business model can be recreated many times domestically. The BRICS countries has the potential to swap the equilibrium of the world's economic power.

II. THE INDIAN CONTEXT

FDI is a dominant monetary source for India's economic development. Economic liberalization started in India in the aftermath of the 1991 crisis and since then, FDI has uninterruptedly increased in the country. India, today is a part of top 100-club on Ease of Doing Business (EODB) and globally ranks number 1 in the greenfield FDI ranking.

Andreff, W. (2016) in his paper stated Indian and Brazilian firms are known to have started up investing abroad earlier than Chinese and Russian MNCs, the latter respectively in 1979 and 1994. Indian OFDI first surfaced as early as in the late 1950s while Brazilian OFDI dates back to the 1970s. In a pioneering paper, Lecraw (1977) checked that nine Indian firms had already invested in Thailand. Analogizing to other BRICS MNCs, the Indian ones were benefiting from a first mover advantage. Some were partially or fully state-owned but most were owned by Indian family capital though often in association with public financial institutions. The size of their OFDI was still rather satisfactory. Faced with a downturn of the Indian economy between 1998 and 2002, Indian firms internationalized operations not only for their survival but with specific strategies for sustained growth (Kant, 2008). An epic presentation of India's OFDI in historical perspective can be segregated into three phases (Hansen, 2010). The first phase (1970s-1980s) was mainly led by moderate investments made in JVs in Asia and Africa and was shaped by political and regulatory restrictive government policies. Second was a start-up phase (1990s-early 2000s) which was largely an outcome of more liberal government stance on FDI. The third was a take-off phase (from early 2000s on) when Indian OFDI exhibited a totally different trend as compared to the previous two phases in terms of growth, industrial composition, and geographical orientation.According to Veni, L. K. (2020) India being a Lower

Middle-Income country recorded noteworthy annual growth of GDP with 6.81% in the year 2018.Compared to other countries of BRICS. India is the only country that contributes more to GDP with 14.6% in the agriculture sector. Sultana, M., Kagdiyal et al (2019) in their study shows that the FDI had moderately influenced the economic framework of India. The input variable of FDI includes the foreign exchange reserve, exchange rates export and import. Foreign exchange reserves (FER) are important to sustain the Indian rupee. The present research depicts that FER is positively significant to HDI and population while insignificance to inflation and negatively significance to Sensex index but insignificant to Gross 10 Domestic Product (GDP) which reveals that exchange reserves are used in stabilizing the INR. The study tries to assess empirically, the relationship between foreign direct investment (FDI) and economic growth in India by using yearly data for a decade from 2006-07 to 2016-17.

Table 1. Chronological Oder for reforms of overseas trade in India

Date	Major Events
March 2003	India allowed overseas investment up to USD 100 mn to corporate with proven track records to invest in JV or wholly owned subsidiaries. The core activities were allowed to be different. Besides investment up to 100 percent of the net worth allowed in these ventures.
January 2004	No monetary ceiling for eligible Indian entities in investment in JVs and Subsidiaries up to 100 percent of their net worth.
May 2005	Indian entities were allowed to invest 200 percent of their net worth and ceiling not abdicable if investment made out of the balance of EEFC accounts and all the procedures of GDRs and ADRs are followed.
March 2006	All Indian entities were allowed to disinvest in without prior approval of RBI through Automatic rout subjected to condition of good track record in export and some other conditions. They were also allowed to set up JVs and wholly owned companies without prior permission of RBI.
July 2006	Ceiling on overseas investment was increase to USD 2 mn from USD 1 mn in aggregate.
April 2007	Equity related investment in VCF permitted for off-shore capital buildings with an overall limit of USD 500mn.
June 2007	The automatic rout for all investment overseas increased from to 300 percent from the earlier 300 percent.
September 2007	The limit under automatic rout increased to 400 percent from 300 percent. Mutual funds are allowed to invest up to 5 billion USD. The limit of portfolio investment is enhanced from 35 percent of 50 percent.
April 2008	Aggregate investment ceiling for Mutual funds increased from USD 5 billion to USD 7 billion.
June 2008	Companies of Indian origin were allowed to invest in excess of 400 percent of their net worth as on their last date of audited balance sheet.
August 2008	With prior approval of RBI, registered trust and societies in education were allowed to invest in JVs and Ventures overseas.
May 2011	WOS with Indian promoters were allowed to write of capital to the extent of 51 percent on overseas joint ventures and wholly owned subsidiaries.
June 2011	Disinvestment without prior permission from RBI was allowed where the amount repatriated is less than the amount of original investment with few conditions.
April 2015 (Industry Policy 2015-20	The New Trade Policy was announced announces more incentives for exporters to help tide over the effect of a likely demand slump e-commerce export of handloom products encouraged

Source: RBI Press Release

III. THE FOREIGN CONTEXT

OFDI, IFDI of BRICS economies has long been a subject of great interest in the field of international development and has resulted in a huge number of studies focusing on both developed and developing countries. Studies have analyzed that the impact of FDI on host country depends on the size and structure of the FDI flows.

Brazilian companies started investing abroad in the 1970s. Domestic recession of the late 1970s and the 1980s' crisis are main reasons mentioned by Brazilian entrepreneurs to evidence the first wave of Brazilian OFDI, it played as a push factor for Brazilian firms to emerge in the global sphere. Banks, engineering service firms and Petrobras (Brazilian oil and gas company) expanded their activities to neighboring countries. Quite a number of Brazilian MNCs had appeared between 1975-1980 (Andreff, 1982). The Brazilian Central Bank data show that 54% of FDI outflows were concentrated in financial services in 1980. A strong presence of banking investments overseas was strategically targeted to support the expansion of Brazilian firms' exports. Besides, first Brazilian MNCs were involved in industries such as oil exploration and production, construction and engineering, and a few manufacturing namely in the agro-food industry. Main destinations of Brazil's OFDI were Latin America, Africa and the Middle East. Villela (1983) provides a list of the largest non-financial investors abroad in the 1980s. In the 1990s, significant number of Brazilian companies have entered a new phase in their internationalization process (Cyrino et al., 2010). OFDI flows ascended as a consequence of deregulation, privatization and trade liberalization followed by new Brazil's outward economic orientation. By the late 1990s, due to economic and institutional reforms, a growing internationalization of Brazilian firms was registered; OFDI was triggered by a strategy of expanding business in foreign markets which has particularly developed after 2002, corresponding to a recovery of Brazilian economy from the 2001 crisis (Amal and Tomio, 2012).

Though lagging behind the emergence of Indian and Brazilian MNCs, Chinese MNCs held a first mover advantage compared to MNCs from all other transition economies, including those from Russia and Central Eastern European countries (CEECs). They started establishing subsidiaries abroad as early as 1979, essentially to open new export markets (Ye Gang, 1992). Since then, they were ahead of Russian companies in investing abroad. OFDI from China in 1992 ($7,401 million) was of about the same magnitude as the one from Russia in 1998 ($7,385 million). Just like Indian MNCs, the growth of mainland China's MNCs has been led by the Linkage, leverage, learning (LLL) approach and past technology transfers from foreign MNCs resulting in productivity spillovers to domestic Chinese firms. In a future last phase, it is expected that China's OFDI would route comparable transfers and spill-overs from China to developing countries (Lian and Ma, 2011). This should make Chinese MNCs more acceptable in this sort of host countries

Former USSR opened up to inward FDI comparatively later, in 1987, and the LLL process did not operate in the 1990s given the bad domestic investment climate in Russia (Andreff, 1999a). So called Soviet "red multinationals" (Hamilton, 1986) evanesced nearly overnight in the wake of the USSR's break-up and successive transformational recession. OFDI stock from the USSR fell from $699 million in 1990 down close to nil in 1992 and 1993. In contradiction, number of Russian firms 5 impulsively transformed into MNCs overnight simply because they were located in more than one former Soviet republic. Since these republics obtained the status of new independent states by end of 1991 or in 1992, a same company located in two or more former Soviet republics – it was often so under central planning - became all at once a so-called "born multinational" company (Liuhto, 2001).

Foreign direct investment has a long and complex history in South Africa. Foreign corporations have been present since Britain established a colony early in the 19th century. Effective exploitation of the resources required large capital-intensive operations, and was made possible by both direct and portfolio investment flows from Europe, particularly London. This contributed to the early development of a domestic stock exchange in Johannesburg. Domestic economic growth and the re-investment of mining profits stimulated manufacturing development from the turn of the 20th century. Direct investment from the UK, the US and Europe was important in the establishment and growth of new industrial sectors during the five decades from the 1920s. Domestic manufacturing development was accelerated by exchange rate deprecation after the Gold Standard collapsed in 1933, by demand growth and import difficulties during World War II, and by import substitution policies commonly found in developing countries during the 1950s and 1960s. Although some FDI continued to flow into mining, during this period it went mainly to manufacturing and services. By the early 1970s, 40 % of the FDI stock was in manufacturing and 25% in financial and business services, with only 15 per cent in mining. South African firms have become significant foreign investors themselves. The large mining houses have retreated from the conglomerate structure that was tied to operating in a relatively closed economy, selling off domestic non-core assets and making significant mineral investments internationally. In addition, sub-Saharan Africa has opened up to South African firms since 1994. The stock of South African direct investment assets in Africa grew 18 per cent per annum between 1995 and 2001 (SA Reserve Bank 2001, 2003). Investment into Africa is concentrated in resource extraction and market-seeking activities, notably mining, finance, retail and infrastructure (EDGE Institute, African Investment Database, 2003). According to UNCTAD data Among BRICS countries, South Africa shows the largest share of intra-BRICS investment. In 2011, one fifth of the outward investment stock of South Africa was concentrated in other BRICS countries, mainly China.

IV. CONCLUSION

BRICS economies are quite promising and were originally projected to be the fastest-growing market economies by Jim O'Neill of Goldman Sachs (2001). It has been postulated that by 2050 these economies would be wealthier than most of the current major economic powers. The BRIC initialization expanded to include South Africa as the fifth nation in 2010. Many companies also cite BRICS nations as a source of foreign expansion or Foreign Direct Investment (FDI) opportunities. Foreign business expansion happens in countries with promising economies in which to invest. BRICs and Beyond (2007) focused on BRICS growth potential, along with the environmental impact of these growing economies and the sustainability of their rise. The report considered the Next 11, (N-11), a term for 11 emerging economies, in relation to the BRICS nations. Manmohan Agarwal (2008) The BRICS countries has the potential to swap the equilibrium of the world's economic power. There are various frameworks concerning the relative size of major economies till 2050 based on incomes measured at official exchange rates. It suggests a steep increase in the share of world income of China and partly India thereby becoming major players in the decades ahead. There has been an increase in growth rate of the Asian countries in comparison to other countries. India investing abroad to reap the benefits of technology and other characteristics of foreign companies whereas, China investing to get the benefits of sources of raw materials. The study also looked at the overall ascendency of new global markets. The grouping has gone through a reasonably productive journey. It strove to serve as a bridge between the Global North and Global South. The future of BRICS depends on the adjustment of the internal and external issues of India, China and Russia. Mutual communication between India, China and Russia is important for moving ahead.

The below table (Table 2) highlights the FDI inflows and outflows of the BRICS economies. Last 5 yearshas been taken into consideration.

Table 2: FDI inflows and outflows of BRICS economies with FDI.

Years	**B**razil	**R**ussia	**I**ndia	**C**hina	**S**outh Africa	Total
2015	64.738 (18.00)	6.853 (1.91)	44.009 (12.24)	242.489 (67.43)	1.521 (0.42)	359.61 100.00
2016	74.30 (22.63)	32.54 (9.91)	44.46 (13.54)	174.75 (53.24)	2.22 (0.67)	328.26 100.00
2017	68.89 (22.54)	28.56 (9.35)	39.97 (13.08)	166.08 (54.36)	2.06 (0.67)	305.55 100.00
2018	78.16 (21.11)	8.79 (2.37)	42.12 (11.37)	235.67 (63.64)	5.57 (1.50)	370.30 100.00
2019	69.17 (20.11)	31.98 (9.29)	50.61 (14.71)	187.17 (54.40)	5.12 (1.49)	344.05 100.00
2020	NA	NA	NA	NA	NA	NA

FDI INFLOWS (in US$ Billion)

Years	**B**razil	**R**ussia	**I**ndia	**C**hina	**S**outh Africa	Total
2015	3.14 (1.47)	22.08 (10.38)	7.51 (3.53)	174.45 (82.02)	5.51 (2.59)	212.69 100.00
2016	14.69 (5.59)	22.32 (8.49)	5.05 (1.92)	216.46 (82.30)	4.49 (1.71)	263.01 100.00
2017	21.34 (9.93)	36.75 (17.11)	11.08 (5.16)	138.24 (64.34)]	7.45 (3.47)	214.87 100.00
2018	2.03 (1.06)	31.37 (16.35)	11.43 (5.96)	142.98 (74.53)	4.03 (2.10)	191.83 100.00
2019	22.82 (11.53)	21.91 (11.07)	13.15 (6.64)	136.95 (69.18)	3.14 (1.59)	197.97 100.00
2020	-16.42 (-15.13)	5.29 (4.88)	11.57 (10.66)	109.98 (101.39)	-1.96 (-1.81)	108.47 100.00

FDI OUTFLOWS (in US$ Billion)

Source: WorldBank Data

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