RESEARCH PAPER | Commerce | Volume : 4 | Issue : 10 | October 2014 | ISSN - 2249-555X

Impact of FDI Outflows on GDP of Brics Countries

KEYWORDS: Outward FDI, GDP, BRICS

Ms. Anupam

Dept of Commerce S.D college Ambala Cantt

ABSTRACT *Over the past few years India's outward foreign direct investment (OFDI) flows and stocks has increased dramatically although the immense flow of OFDI from developing countries at an international level is fairly a new phenomenon. This aggregate trend is contemplative from the fact that at the firm level technological capabilities and market share of many companies from the developing economies (ETNCs) have become gradually stronger. This paper analyse the impact of FDI outflows on GDP of BRICS countries. We have used regression model that explains that overseas FDI does not showing significant impact on GDP.*

INTRODUCTION

FDI has been one of the major factors in the economic growth of world economies. The growth of overseas foreign direct investment (FDI) from rising countries has accelerated in the first decade of the 2000s and has been less markedly affected by the 2008-2012 economic crises in the BRICS than overall FDI in the rest of the world. FDI outflows from developing economies have reached at a significant level. Transnational corporations (TNCs) from developing countries are increasingly receiving foreign supports from developed countries. FDI by transnational corporations (TNCs) from developing countries reached $454 billion in 2013. Together with transition economies, they accounted for 39 per cent of world FDI

outflows that was only 12 per cent at the beginning of the 2000s. Six developing economies ranked among the 20 largest investors in the world in 2013. (World Investment report 2014).

In the past two years many countries have eliminated various precincts on the trading of international financial assets which has increased the flow of financial capital across the globe in the past two decades. The investment by foreign investors is mainly done into fast growing developing economies, including India, which create profitable investment opportunities. Studies for developed home economies mainly focus on a wide range of potential economic impacts of OFDI including impacts on domestic employment, wages, expenditures on research and development and innovation, trade flows and tax revenues, among others. (Kokko, 2006). India has not unaffected by the growth in the world financial markets due to its links of the Indian markets with the global markets. (Garg and Dua, 2014)

Foreign direct investment (FDI) is a direct investment into business in a country by an individual or company of another country, either by purchasing a company in the target country or through expanding operations of an existing business in that country. It includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". On the other hand GDP refers to the monetary value of all the finished goods and services produced within a country's in a specific time period.

REVIEW OF LITERATURE:

(Carkovic and Levine 2002) examined that the exogenous component of FDI does not exert a robust, independent impact on economic growth. He used simple ordinary least squares (OLS) regressions with one observation per country over the 1960-95 period and secondly dynamic panel procedure with data averaged over five-year periods. Basu, Chakraborty and Reagle (2003) using a panel of 23 countries from Asia, Africa, Europe and Latin America, found a co-integrated relationship between FDI and GDP growth. They found two-way causality between FDI and GDP growth in open economies, both in the short and the long run, whereas the long run causality is unidirectional from GDP growth to FDI in comparatively closed economies. (Kurtishi and Kastrati, 2013) examines the long run and the short run relationships between foreign direct investment and economic growth in Macedonia. We empirically investigate the relationship between FDI and GDP and other variables used in this study by applying the Co integration analysis and Error Correction Model to identify the variables explaining FDI determinants in Macedonia, research further attempts to investigate the effect of FDI on economic development of Macedonia using the methodology of Vector Auto Regression and Granger Causality Test in this specific country

OBJECTIVES OF THE STUDY

The study is based on the following objectives:

1. To know the trends of FDI Outflows and GDP of BRICS countries.

2. To know the impact of FDI Outflows on GDP of BRICS countries.

DATA COLLECTION AND RESEARCH METHODOLOGY

Secondary data has been collected from various websites and journals. The paper aims to examine the trends and impact of foreign Direct Investment outflows on GDP of BRICS countries. For this we have collected the Data of FDI and GDP from the BRICS countries for the period from 2004 to 2013. We have used regression analysis for this purpose we have assumed GDP as a dependent variable and FDI outflow and to show the trends of FDI and GDP of BRICS countries from 2007 to 2013.

Volume : 4 | Issue : 10 | October 2014 | ISSN - 2249-555X

ANALYSIS AND INTERPRETATION

The result has been analysed with the help of graph, tables and with the help of regression techniques. Firstly we have analysed the trends of FDI and GDP of BRICS countries then impact of FDI on GDP.

Table 1. TRENDS OF FDI AND GDP OF BRICS COUNTRIES

The above table 1 shows the trends of FDI outflow of BRICS countries from 2005 to 2013. From the table we can see that among the all countries China is performing well as compare to other countries. Its outward FDI is continuously increasing on the other hand Brazil and South Africa is also showing negative outflows. Indian outward FDI is continuously decreasing due to various factors.

TABLE 1. FDI Outflows OF BRICS Countries

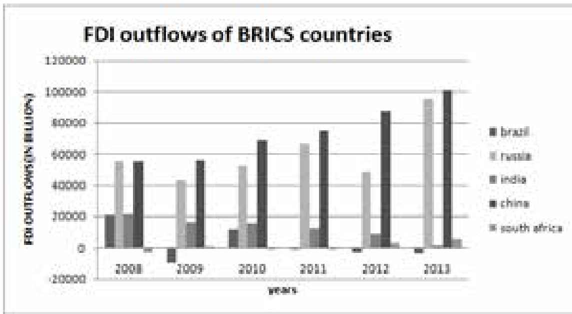

Table 2. GDP of BRICS Countries

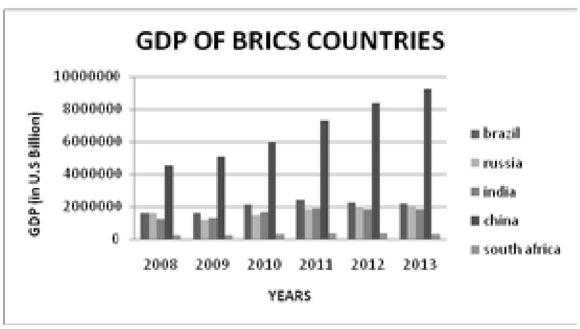

Table 2 shows the GDP trends of BRICS countries. China GDP is growing continuously while other countries GDP is also rising but not increasing every year. South Africa GDP is very low as compared to other countries.

1. Impact of FDI outflows on GDP of BRICS countries

In this paper we have analysed the impact of FDI outflows on GDP of BRICS countries. We have used regression analysis to study the relationship between FDI outflows and GDP of BRICS countries. For this purpose we have developed following hypothesis:

Hypothesis: FDI outflows affect GDP of BRICS Countries
No. of Observations: 55 R Square: 0.268
P Value: 0.00 Standard Error of Estimate: 1.55

Figure shows that overall analysis is significance because P value is 0.00 which shows that FDI Outflows doesn't affect GDP of BRICS countries. Further R square is .268 which suggests 26.8% variation is explained by FDI in this model while remaining variation in this analysis is unexplained.

COUNTRY-WISE ANALYSIS OF BRICS COUNTRIES

Country	R SQUARE	P VALUE
BRAZIL	.077	0.00
RUSSIA	0.844	0.00
INDIA	.077	.409
CHINA	.971	0.00
SOUTH AFRICA	0.007	0.806

While making countries wise analysis of BRICS countries shows that Russia and China have significant impact of outward FDI on GDP of those countries. On the other hand 97 % of variation in China GDP is explained by outward FDI.

CONCLUSION

In last we can growth of any country depend on many factors not only investment but also on inflation, employment level, infrastructure, government regulations etc. Increasing FDI shows a positive indication of economic growth of countries. China is performing well on the other South Africa and Brazil showing low rate of GDP and FDI outflows. These countries are trying to make efforts to increase its GDP and FDI but due to some constraints they are not achieving their targets.

REFERENCE

• Unctad.org | • Kokko, A. (2006). The home country effects of FDI in developed economies (Vol. 225). European Institute of Japanese Studies. | • Garg, R., & Dua, P. (2014). Foreign Portfolio Investment Flows to India: Determinants and Analysis. World Development, 59, 16-28. | • Buckley, P. J., Clegg, L. J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. (2007). The determinants of Chinese outward foreign direct investment. Journal of international business studies, 38(4), 499-518. | • Basu, P., Chakraborty, C., & Reagle, D. (2003). Liberalization, FDI, and growth in developing countries: a panel cointegration approach. Economic Inquiry, 41(3), 510-516. | • Kurtishi-Kastrati, S. (2013). Impact of FDI on Economic growth: an overview of the main theories of FDI and empirical research. European Scientific Journal, 9(7). |