China and South Africa: Most Attractive FDI Destinations in the BRICS

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Abstract

In the present era of globalization and high competition, every country is striving to attract maximum Foreign Development Investment (FDI) from other countries for its economic growth and development. BRICS comprising Brazil, Russian Federation, India, China and South Africa, is a group of developing countries. BRICS accounted for 22 percent of global GDP but received only 11 percent of global inward FDI stock in 2016 (World Investment Report 2017). Many Multinational organizations of developed countries look for the best destination for their projects to invest in the form of FDI. The purpose of the study is to identify the most attractive FDI destination among The BRICS nations. The FDI inflow in any country depends on availability of various factors; hence this study proves into the existence of factors in the BRICS countries. Secondary data has been used to rank of BRICS countries on various factors which attract FDI inflow. The study indicates that both China and South Africa are emerging as attractive FDI destinations among BRICS economies. This paper is useful for all the countries as well as MNCs, which are searching for investment destinations in the BRICS nations as it ranks these five nations on the basis of attractiveness of various determinants of FDI.

Keywords: Foreign Direct Investment Inflow; BRICS Countries; Multinational Organizations; Factors attracting FDI inflow; and FDI Destination.

Introduction

Foreign Direct Investment (FDI) is one of the ways in which International factor movement (IFM) occurs which is the key factor in building international trade. FDI inflow has significantly contributed to BRICS countries by influencing the level of growth in terms of capital flows, technology transfer and knowledge transfer and has been phenomenal. FDI inflow stimulates the economic growth of recipient country and bridges the gap between saving and investment needs of host country. According to the (Economy, 2017), FDI inflows to the five BRICS countries rose by 7 per cent to $ 277 billion in 2016. FDI inflow to BRICS was more than the outflow of Group. BRICS is the host to 24 per cent of the world's 500 largest companies.

FDI inflow depends on various factors available in the country. Initially foreign investors prefer to invest through FDI because of better control over assets and operations of the organization. But the trend has changed and found that foreign investors prefer to invest in an economy where sufficient human capital, good infrastructure, economic stability and liberalized markets are available to reap the benefits from foreign direct investment (Bengoa & Sanchez-robles, 2003).

A rise in consumption and availability of production facilities in developing economies have made it easy to shift projects by MNCs in these economies and increase in investment for market seeking and efficiency-seeking projects. Studies show that there is a positive relationship between FDI inflow and economic growth; hence economies try to develop encouraging conditions to attract FDI inflow in their countries. Developing countries are taking care of the development of infrastructure, availability of hassle free work force, allowing access to market, liberalization of economic policies and stability to invite the foreign direct investment in their economies. Brazil, Russia, India, China and South Africa (BRICS Countries) are the most prominent countries of developing economies.

In order to attract FDI inflow, policy makers should think of improving the process and identify their areas of improvements regarding the determinants of FDI inflow. So much research work has been done in the area of determinants of FDI inflow. Fernandez, M., & Joseph, R. in 2016, mentioned in their study that Qatar is the emerging FDI attracting economy among the GCC. The present study is helpful in providing the determinants of FDI inflows in BRICS economies and the degree to which these factors affect the inflow of FDI. To attract more FDI, policy makers of these countries should work to improve the significant determinants.

Literature Review:

FDI being one of most prevalent topics has been studied by many researchers. Some tried to investigate its importance and others tried to identify the reasons of its existence.

Chakraborty, C.,et.al. analysed with the help of Granger causality tests in his research that after New Economic Reforms of 1991, the FDI actually contributed to the economic growth and development (Chakraborty, Nunnenkamp, & amp; Economy, 2008) . Many studies used the concept of Granger Causality for proving the contribution of FDI in economic growth (Gupta & amp; Singh, 2016). This view is known to everyone and also well proven. In India the FDI came into action after the stagnation period of 1991 when India confronted a crunch in its foreign exchange. It was just a commencement of the new vibrant era, not only for India but for the whole world.

The present Paper will try to establish that which country amongst the BRICS Nations is the most attractive destination for FDI?

As cleared from so many studies that FDI endorses economic growth and wellbeing of the nation so it is imperative from the point of view of countries to attract more FDI, but the question arises that how many actually succeeded.

Borensztein, E., De Gregorio, J.,et.al. Studied the data of 69 countries and concluded that FDI is more than only an investment. It is a growth channelizing agent which works well when the host economy is able to absorb its fruits of advanced technology. It also mentioned that the FDI will become more efficient when the host economy's Financial Sector is developed (Borensztein, Gregorio, & Lee, 1998; Mostafa, 2013) .

In an another study in 2003 by Hermes, N., & Lensink, R., it was analysed with the help of empirical analysis on 67 countries that the FDI contributes to the economic growth only when the Financial Sector growth of the host country is coupled with it (Hermes & Lensink, 2003)

For the purpose of attracting more market oriented Foreign Direct Investment, countries are expected to have a good economic growth, large market size and increased economic development. Therefore all these factors contributes as a determinant of FDI in the host country (Duan, 2008; Gupta & Singh, 2016) .

In 2006, Yao S. researched that China remained the most striking destination for FDI and it could have been due to certain policies of China like adopting various business practices of the world, latest technologies and promoting trade. Researcher also stated that that FDI are the roots beneath the miraculous growth of china (Yao & Yao, 2016).

A study conducted in 1999, tinted the variable competitiveness mentioned in this study also. The study of 1999 conducted on Brazilian Economy, by Bonelli, R. stated that there is a positive correlation between the competitiveness in the host economy's industrial setup and FDI but the causation on either of the side is not clearly visible (Bonelli, 2007; Kreppel, 2003) .

Positive correlation is seen between FDI and Trade openness in the studies of many researchers. The reason behind streaming this determinant could be the air of liberalization in economies. They prefer to open their venues for investors, especially in case of capital goods (Heinz & Tomenendal, 2012; Mackie, 2015).

Exchange Rate volatility has remained a factor which deleteriously effects the FDI as studied. It has been observed that those countries which are affected by high rates of exchange rate fluctuations usually discouraged foreign direct investment. Interest Rate and Exchange Rate fluctuations are considered as a risk factor for economic prospects and also businesses do not flourish and breed in such state of affairs (Alon, 2008; Kaur, Yadav, & Gautam, 2013)

Political Instability, bureaucracy, controls, ineffective tax structures are established to be some other variables which negatively impacts countries FDI, also the deleterious attitude of nation's government have unfavourable impact on investors. In addition to the above variables, corruption is also an undesirable stimulus for the MNCs while considering for investment in the host countries (Fernandez & Joseph, 2016; Windsor, n.d.)

However, there are studies available which states that the impact of FDI is two way, means the increased FDI in an economy also helps in reducing the level of corruption in the host economy. (Kwok & Tadesse, 2006; Orruption & B, 2004)

For reducing the distance between production source and demand source, MNCs generally considers location and market size factors. Also, the quality and quantity of labour force existing in the host economy also serves as an important parameter before investing countries. Japanese investors are extremely attracted towards the Chinese economy mainly because of the efficient labour force, low cost labour and high potential of the market. Infrastructure of China is also developed when equated to few other neighbouring nations (Cassidy & Andreosso-O'Callaghan, 2006) (William J. Wales, Vinit Parida, & Patel, 2013). As, determined through many studies, these determinants combine and lays mutual impact on the FDI decisions of the investing countries. The literature supports the advantages of the FDI for the host countries but other important determinants repeatedly considered while analysing those advantages are competences of the host country. The expenditure of the government of host country on Technology advancement and also in making its economy more competitive is the factor studied by many researchers. A book published in association of World Bank highlighted the importance of technological advancements and competences in attracting FDI in the host nation (Lall & Urata, 2003)

The study by Ali ACARAVCI in 2012 proved that size of the market, market openness and per capita income in the economy significantly affects the foreign direct investment of any nation, however the study was restricted to the EU Countries (Ozturk, 2012).

The study conducted by Eric Neumayer, 2005 analysed child labour and trade openness as the determinants of FDI and concluded that the child labour impacts negatively but availability of raw material and less restrictive trade practices positively impacts the FDI (Neumayer & De Soysa, 2005) .

Also, the literature related to the benefits of the FDI is of relevance. FDI is used for promoting growth opportunities and infrastructural development in the host nations.

According to a study conducted in 2014, the FDI is not only required for channelizing growth in the country but that is also a source of revenue for the host economy and used for the accomplishment of various investment projects (Almutawa, 2014)

Another study conducted in 2006, confirmed that increased capital formation and job opportunities from foreign companies helps an economy in reducing its unemployment rates as well. Also, it is a catalyst to the development of the financial sector of the host economy. (Muysken & Nour, 2006)

Another study in the same year stated that the manufacturing sector is also benefitted a lot with the FDI as it provides them the required capital which would be difficult to generate with in the economy. Also, it promotes tourism, thereby proving a source of earning to the residents of the host country. (Mina, 2007) A study in 2013 was very true in its nature stating that the FDI attracts FDI, means in the long run more stakeholders gets attracted towards the economy in which currently a good number of investors are showing their interest. Espinoza, R., Fayad, G., & amp; Prasad, A. (2013).

A study conducted on France economy by incorporating a very long time period i.e. 1965- 2017, concluded that education, electricity consumption and transportation are playing important role in determining the FDI in the economy. It established a nonlinear relationship with U-shaped curve (Shahbaz & Nasir, n.d.).

Another study conducted on Pakistan showed that government size and stability, legal structure and rights to hold asset particularly Real Estate has positive correlation with the FDI in any economy (Uddin, Chowdhury, Zafar, Shafique, & Liu, 2018) .

Financial, economic and political aspects contribute in the process of decision making in the FDI. Rebates in taxes, government credence and commitment and acquisition of assets are evolved as few important determinants of the FDI (Mahbub & Jongwanich, 2019).

In conclusion to the above stated literature the trends of

FDI have remained asymmetrical and uneven among nations. There are many factors accountable for such trends but this study is restricted to BRICS nations and their comparative analysis in terms of determinants of the FDI, which makes them more or less attractive.

Methodology

The purpose of the study is to identify the most attractive FDI destination in the BRICS economies. The FDI inflow in any country depends on availability of various factors; hence this study proves into the existence of factors in the BRICS countries. Secondary data has been used to rank BRICS nations on various factors which attract FDI inflow. Secondary data has been collected from World Economic Forum, International Monetary Fund, Transparency International, World Bank group. The study focuses on the decade starting 2007-2008 to 2016-2017. The collected data is tabulated and analyzed using appropriate analytical tools to draw meaningful conclusion.

Analysis and Interpretation

Determinants

The Global Competitiveness Report is published by the World Economic Forum (WEF) every year. The report analysis the competitiveness, strength/opportunities of global economies, thereby providing insights into the drivers of their productivity and prosperity. The Report series is assumed to be of utmost importance and a comprehensive assessment of national competitiveness worldwide.

Table 1: The Competitiveness of BRICS Economies

BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the Best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	72	64	56	58	53	48	56	57	75	81
Russia	58	51	63	63	66	67	64	53	45	43
India	48	50	49	51	56	59	60	61	55	39
China	34	30	29	27	26	29	29	28	28	28
South Africa	44	45	45	54	50	52	53	56	49	47
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138

Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Table 1 represents the global competitiveness ranking for the BRICS countries during the period 2007-2008 to 2016-2017 based on the parameters such as intensity of local competition, extent of market dominance, effectiveness of anti-monopoly policy, availability of taxation incentives to invest, various tax rate as percentage of profits, number of procedures to start a business, number of days to start a business, agricultural policies, prevalence of trade barriers, trade tariffs as percentage duty, prevalence of foreign ownership, business impact of rules on FDI, burden of customs procedures, imports as a percentage of GDP, degree of customer orientation and buyer sophistication.

Table 2: The Competitiveness of BRICS Economies										
BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	5	5	4	4	3	2	3	4	5	5	4
Russia	4	4	5	5	5	5	5	2	2	3	4
India	3	3	3	2	4	4	4	5	4	2	3.4
China	1	1	1	1	1	1	1	1	1	1	1
South Africa	2	2	2	3	2	3	2	3	3	4	2.6
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	

Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-08 to 2016-17

Table 2 gives the filtered ranking for BRICS economies. The Global Competitiveness Report for the period 2007-08 to 2016-2017 rank China as the most competitive and attractive country among BRICS counties for all the years during study. Initially the second position was held by South Africa but later on its rank deteriorated with some corrections and in the last year of study it further declined to four. The results for India are mixed: constant for first three year then improved in fourth year, then again deteriorated continuously till 2015-16 but in the last year of study it improved drastically from five to two. This could have been due to formation of new government at the centre in 2014, making some quick and effective decisions relating to FDI policies. Other countries also have mixed results.

From the table, it can be inferred that China remains the best FDI destination among the BRICS nations for the decade starting 2007-08 and ending 2016-17.

Determinants of Foreign Direct Investment inflow:

Availability of Growing and Effective Market

Market size and market efficiency are important determinants of FDI. These are important pulling factors of the country's economy and are positively co-related to the level of FDI flows. A huge market size allows attainment of economies of scale and transaction costs are lower in countries with higher levels of economic development (Caves, 1971; Zhao and Zhu, 2000).

The market size can be measured by growth of population of the country. BRICS, being a consortium of developing nations, is favored by tourists from across the globe. The growing population of residents and tourists brings plethora of opportunities for the investors- both domestic as well as international in these economies. Moreover, favorable government policies and strong investment opportunities provides a good market for the FDI. Table 3 gives the global ranking and Table 4 gives the filtered ranking for the market efficiency for the period starting 2007-08 to 2016-2017 of BRICS nation.

Table 3: Goods Market Efficiency of BRICS Economies										
	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
BRICS Economies	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	97	101	99	114	113	104	123	123	128	128
Russia	84	99	108	123	128	134	126	99	92	87
India	36	47	48	71	70	75	85	95	91	60
China	58	51	42	43	45	59	61	56	58	56
South Africa	32	31	35	40	32	32	28	32	38	28
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138
Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017										

Table 4: Goods Market Efficiency of BRICS Economies											
	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
BRICS Economies	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	5	5	4	4	4	4	4	5	5	5	4.5
Russia	4	4	5	5	5	5	5	4	4	4	4.5
India	2	2	3	3	3	3	3	3	3	3	2.8
China	3	3	2	2	2	2	2	2	2	2	2.2
South Africa	1	1	1	1	1	1	1	1	1	1	1
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	
Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017											

During the ten year period of study, South Africa emerged as the best economy among BRICS for Goods Market Efficiency.

Infrastructure

Infrastructure is one of the major determinants of FDI. Good infrastructure plays a pivotal role in the profitability of the Multinational Corporations (MNCs). The decision about FDI location is positively correlated to excellent infrastructural facilities in the country. Table 5 gives the global ranking of the best infrastructure in the world of BRICS economies. Table 6 gives the filtered ranking of the BRICS nations, for the period of 2007-08 to 2016-17. The data collected was based on the quality of roads, railway infrastructure, seaport infrastructure, airport infrastructure, electricity supply, telecommunications, etc. Global rankings suggest Russia to be a promising economy in terms of infrastructure.

Table 5: Infrastructure of BRICS Economies

BRICS Economies	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
Brazil	78	78	74	62	64	70	71	76	74	72
Russia	65	59	71	47	48	47	45	39	35	35
India	67	72	76	86	89	84	85	87	81	68
China	52	47	46	50	44	48	48	46	39	42
South Africa	43	48	45	63	62	63	66	60	68	64
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138

Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Table 6: Infrastructure of BRICS Economies

BRICS Economies	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
Brazil	5	5	4	3	4	4	4	4	4	5	4.2
Russia	3	3	3	1	2	1	1	1	1	1	1.7
India	4	4	5	5	5	5	5	5	5	4	4.7
China	2	1	2	2	1	2	2	2	2	2	1.8
South Africa	1	2	1	4	3	3	3	3	3	3	2.6
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	

Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

According to the filtered rankings of the BRICS nations during the period 2007-08 to 2016-17, it can be inferred that Russia is the most preferred destination for FDI in terms of infrastructure. It can also be seen that China has also maintained it's position at number two, investing continuously in infrastructural development projects.

Labour Market efficiency

A dynamic and vibrant labour force attracts Foreign Direct Investments. International investors consider skilled labour force as a major factor that determines their success in the country. China's shift from a centrally planned economy to a market oriented economy led to increase in per capita income of the country. Simultaneously, educational reforms were also introduced during the period that further pushed the Chinese economy. Table 7 shows the global rankings of Labour Market Efficiency of BRICS nations and Table 8 shows filtered ranking of these nations.

Table 7: Labour Market Efficiency of BRICS Economies										
BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	104	91	80	96	83	69	92	109	122	117
Russia	33	27	43	57	65	84	72	45	50	49
India	96	89	83	92	81	82	99	112	103	84
China	55	51	32	38	36	41	34	37	37	39
South Africa	78	88	90	97	95	113	116	113	107	97
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138
Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017										

Table 8: Labour Market Efficiency of BRICS Economies											
BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	5	5	3	4	4	2	3	3	5	5	3.9
Russia	1	1	2	2	2	4	2	2	2	2	2
India	4	4	4	3	3	3	4	4	3	3	3.5
China	2	2	1	1	1	1	1	1	1	1	1.2
South Africa	3	3	5	5	5	5	5	5	4	4	4.4
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	
Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017											

According to the filtered rankings of the BRICS economies, China remains the most preferred destination for labour market efficiency during the decade with economic and educational reforms playing a key role in overall development. It can also be observed that Russia, which was placed at first position in the beginning of the decade, tumbled to fourth position in the year 2012-13, but with growth in economic activities, improved its position to second place at the end of the decade. Rest all economies performed consistently well during this period.

Technological Readiness

For any developing nation, attracting an inflow of FDI strengthens its networking with rest of the developed economies. Any country with an obsolete technology would mean slow and costly operations. Hence a shift in investment would be imperative. Technological readiness is influential in attracting FDI to any nation. Table 9 shows global ranking of Technological readiness of BRICS economies and Table 10 shows the filtered rankings of these nations during the period 2007-08 to 2016-17.

Table 9: Technological Readiness of BRICS Economies										
BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	55	56	46	54	54	48	55	58	54	59
Russia	72	67	74	69	68	57	59	59	60	62
India	62	69	83	86	93	96	98	121	120	110
China	73	77	79	78	77	88	85	83	74	74
South Africa	46	49	65	76	76	62	62	66	50	49
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138

Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Table 10: Technological Readiness of BRICS Economies											
BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	2	2	1	1	1	1	1	1	2	2	1.4
Russia	4	3	3	2	2	2	2	2	3	3	2.6
India	3	4	5	5	5	5	5	5	5	5	4.7
China	5	5	4	4	4	4	4	4	4	4	4.2
South Africa	1	1	2	3	3	3	3	3	1	1	2.1
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	

Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

According to the filtered rankings, South Africa was placed first at the beginning of the decade starting 2007-08. But with the passage of time there was an economic slump in South Africa which severely affected its economy and it tumbled down to third position for five consecutive accounting years. According to the World Bank Report on South Africa Economic Update (Authorized, n.d.) Slow private investment growth and weak integration into global value chains prevent the country from reaping the new economic opportunities emerging around the globe and from catching up with living standards in peer economies. 2015-16 marked the end of super commodity cycle and severe drought in South Africa. At the end of the decade, South Africa regained its first position in terms of technological readiness among BRICS nations.

It can also be observed that Brazil, Russia and China performed consistently well during the period. India, which was placed at number three in 2007, moved down to fifth place due to slow economic activity at the end of 2017.

Financial Market Development

Financial Markets play a pivotal role in attracting FDI. It has been observed that countries with well-developed financial markets attract higher FDIs as compared to the countries with not so efficient financial markets. Table 11 shows the global rankings of BRICS economies in terms of Financial Market development and Table 12 shows the filtered rankings of these nations for the period 2007-08 to 2016-17. Global rankings suggest south Africa to be a promising economy in terms of Financial Market Development.

Table 11: Financial Market Development of BRICS Economies

BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	73	64	51	50	43	46	50	53	58	93
Russia	109	112	119	125	127	130	121	110	95	108
India	37	34	16	17	21	21	19	51	53	38
China	118	109	81	57	48	54	54	54	54	56
South Africa	25	24	5	9	4	3	3	7	12	11
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138

Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Table 12: Financial Market Development of BRICS Economies

BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	3	3	3	3	3	3	3	3	4	4	3.2
Russia	4	5	5	5	5	5	5	5	5	5	4.9
India	2	2	2	2	2	2	2	2	2	2	2
China	5	4	4	4	4	4	4	4	3	3	3.9
South Africa	1	1	1	1	1	1	1	1	1	1	1
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	

Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

As per the filtered rankings it can be inferred that South Africa has the best financial market of all the BRICS economies. India has also fared consistently well by maintaining its position at number two throughout the period of study. With an increase in economic activities, suitable government policies and economic reforms, these two countries have been preferred globally for FDIs. Russia is the least developed of all the BRICS nations in terms of financial markets.

Market Size

In times of dynamic and uncertain business environment, a large number of firms are engaged in activities which are not only confined to the national borders, but which also broaden their horizon internationally. For expanding the size of their markets, firms need more investment opportunities for which they seek more funds. Market size is an important determinant of FDI. Table 13 shows the global rankings of the BRICS nations in terms of market size and Table 14 shows the filtered rankings of these economies for the period 2007-08 to 2016-17. Global rankings suggest China as the country with a huge market size.

Table 13: Market Size of BRICS Economies

BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	10	10	10	10	10	9	9	9	7	8
Russia	9	8	7	8	8	7	7	7	6	6
India	3	5	4	4	3	3	3	3	3	3
China	2	2	2	2	2	2	2	2	1	1
South Africa	21	23	24	25	25	25	25	25	29	30
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138

Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Table 14: Market Size of BRICS Economies

BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	4	4	4	4	4	4	4	4	4	4	4
Russia	3	3	3	3	3	3	3	3	3	3	3
India	2	2	2	2	2	2	2	2	2	2	2
China	1	1	1	1	1	1	1	1	1	1	1
South Africa	5	5	5	5	5	5	5	5	5	5	5
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	

Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

According to the filtered rankings of the BRICS economies, it can be seen that China has the largest market size. With an ever growing population, competitive pricing policies and an open economy, China has emerged as the most preferred destination for FDI. It can also be observed that India has the second largest market size among these nations. South Africa, despite being the second largest African economy, is placed fifth in terms of market size among all BRICS nations for the period 2007-08 to 2016-17.

Business Sophistication

Business sophistication refers to the quality of country's overall business environment- both macro environment as well as micro environment. It is one of the determinants of FDI. Table 15 shows the global rankings and Table 16 shows the filtered rankings of the BRICS economies for the period 2007-08 to 2016-17 in relation to business sophistication. According to the Global Competitiveness Report of World Economic Forum, South Africa has the most conducive business environment.

Table 15: Business Sophistication of BRICS Economies

BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	39	35	32	31	31	33	39	47	56	63
Russia	88	91	95	101	114	119	107	86	80	72
India	26	27	27	44	43	40	42	57	52	35
China	57	43	38	41	37	45	45	43	38	34
South Africa	36	33	36	38	38	38	35	31	33	30
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138

Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Table 16: Business Sophistication of BRICS Economies

BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	3	3	2	1	1	1	2	3	4	4	2.4
Russia	5	5	5	5	5	5	5	5	5	5	5
India	1	1	1	4	4	3	3	4	3	3	2.7
China	4	4	4	3	2	4	4	2	2	2	3.1
South Africa	2	2	3	2	3	2	1	1	1	1	1.8
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	

Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

According to the filtered rankings, South Africa has the best working business environment among BRICS economies. This is the result of competitive advantage offered by the nation.

Innovation Index

Innovation is also an important determinant of FDI. It is important to note that with the support and encouragement from their respective governments, how these developing nations are giving importance to the innovation and enhancement of knowledge. Table 17 gives the global rankings and Table 18 gives the filtered rankings of BRICS economies during 2007-08 to 2016-17 based on their capacity to use advanced technology, innovations, and expenditure incurred on research and development.

Table 17: Innovation Index of BRICS Economies

BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	44	43	43	42	44	49	55	62	84	100
Russia	57	48	51	57	71	85	78	65	68	56
India	28	32	30	39	38	41	41	49	42	29
China	38	28	26	26	29	33	32	32	31	30
South Africa	32	37	41	44	41	42	39	43	38	35
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138

Source: The Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Table 18: Innovation index of BRICS Economies

BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	4	4	4	3	4	4	4	4	5	5	4.1
Russia	5	5	5	5	5	5	5	5	4	4	4.8
India	1	2	2	2	2	2	3	3	3	1	2.1
China	3	1	1	1	1	1	1	1	1	2	1.3
South Africa	2	3	3	4	3	3	2	2	2	3	2.7
No. of Economies Ranked	131	134	133	139	142	144	148	144	140	138	

Source: Author's own compilation from the Global Competitiveness Report, World Economic Forum 2007-2008 to 2016-2017

Global rankings suggest India to have the best innovation index of all the BRICS nations. According to the filtered rankings, India and China have worked extremely well in terms of boosting their expenditure on R&D, use of advanced technology and their capacity for innovations during the period 2007-08 t 2016-17.

The Corruption Perception Index

The Transparency International's Corruption Perceptions Index measures the perceived levels of public-sector corruption in a given country. The CPI rank 1 means highly clean country and as the rank increases, it indicates high level of corruption in the country. Higher level of corruption hinders free and fair trade. With respect to FDI, the level of corruption in the host country influences the decisions of the international investors. Table 19 gives the global rankings and Table 20 gives the filtered rankings of the BRICS economies during the period 2007-08 to 2016-17 based on Corruption Perception Index in these nations. Global rankings recommend South Africa to have least corruption among all BRICS nations.

Table 19: The Corruption Perception Index of BRICS Economies

BRICS Economies	Global Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)									
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Brazil	80	75	69	73	69	72	69	76	79	96
Russia	147	146	154	143	133	127	136	119	131	135
India	85	84	87	95	94	94	85	76	79	81
China	72	89	78	75	80	80	100	83	79	77
South Africa	54	55	54	64	69	72	67	61	63	71
No. of Economies Ranked	180	178	177	176	177	175	168	176	180	180

Source: The Transparency International 2007-2008 to 2016-2017

Table 20: The Corruption Perception Index of BRICS Economies

BRICS Economies	Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)										
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average filtered ranking for the Decade
Brazil	3	2	2	2	1	1	2	2	2	4	2.1
Russia	5	5	5	5	5	5	5	5	5	5	5
India	4	3	4	4	4	4	3	2	2	3	3.3
China	2	4	3	3	3	3	4	4	2	2	3
South Africa	1	1	1	1	1	1	1	1	1	1	1
No. of Economies Ranked	180	178	177	176	177	175	168	176	180	180	

Source: Author's own compilation from the Transparency International 2007-2008 to 2016-2017

According to the filtered rankings, South Africa emerges s the cleanest nation in terms of corruption practices followed among the BRICS nations during 2007-08 to 2016-17. It also indicates Russia to be the most corrupt nations of all the BRICS economies during the aforementioned period.

Ease of Doing Business

Investors prefer that country where the working business environment is conducive enough for them to survive in the long run. World Bank ranks economies on the basis of ease of doing business in terms of regulatory environment. A high ease of doing business rank would mean that the regulatory environment is conducive enough to start and operate a firm. Table 21 gives the global rankings and Table 22 gives the filtered rankings of the BRICS economies in terms of ease of doing business for the period 2008-2018.

Table 21 : Ease of Doing Business

Global Ranking During 2008 to 2017 (Rank 1 is the best)

BRICS Economies	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Brazil	122	125	129	127	126	130	116	120	116	123	125
Russia	106	120	120	123	120	112	92	62	51	40	35
India	120	122	133	134	132	132	134	142	130	130	100
China	83	83	89	79	91	91	96	90	84*	78	78
South Africa	35	32	34	34	35	39	41	43	73	74	82

Source: World Bank Group 2007-2008 to 2016-2017

Table 22: Ease of Doing Business

Filtered Ranking During 2007-2008 to 2016-2017 (Rank 1 is the best)

BRICS Economies	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average filtered ranking for the Decade
Brazil	5	5	4	4	4	4	4	4	4	4	5	4.27
Russia	3	3	3	3	3	3	2	2	1	1	3	2.45
India	4	4	5	5	5	5	5	5	5	5	4	4.73
China	2	2	2	2	2	2	3	3	3	3	2	2.36
South Africa	1	1	1	1	1	1	1	1	2	2	1	1.18

Source: Author's own compilation from World Bank Group 2007 -2008 to 2016-2017

According to the filtered rankings, South Africa remains the preferred nation in terms of ease of doing business for the period 2008-2018, of all the BRICS nations. This is the result of improved EXIM policy, open economy, and economic reforms during the aforementioned period. It can also be inferred that China is the next best nation in terms of ease of doing business owing to flexible working and regulatory policies.

Conclusion

BRICS is a consortium of one of the best developing nations of the world that constitute over 40% of the global population. It is emerging as the focal point in the international economic domain. With such dynamic economic markets, BRICS is expected to contribute to more that half of the economic growth by 2030. Based on these facts, this study examined the factors that determine the flow of FDI to BRICS economies. It was observed that market size, infrastructure availability, ease of doing business, corruption practices, innovation index, labour market efficiency, technological advancement, financial market development, and availability of growing and effective market play the significant role in attracting FDI to these countries.

One basis of the parameters studied, a number of global business indexes have ranked both China and South Africa as attractive FDI destinations in BRICS. China and South Africa are two of the fastest growing economies of the world, having a rapid population growth, expanding infrastructure, high productivity, diversified labour force, well developed financial markets, technological readiness and innovation, ease of doing business, competitive labour cost and conducive regulatory policies. All these factors make China the most attractive destination for Foreign Direct Investment in the BRICS.

This study has its limitations as it is focused only on the factors favouring the flow FDI into BRICS nations. It would have been more holistic if factors hindering FDI were also studied. There is plenty of scope for further studies in the future, which may be studied on factors hindering the flow of FDI into the BRICS economies.

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