A New Trend of Foreign Direct Investment and Sustainable Growth of Emerging Economies

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With the rise of globalisation concept, the opportunity of going global for companies has become so influential that many of the companies that are doing well in the home country are staring up their businesses in other countries to maximise the profit. The trend of investing in other economies has become very popular that's why the trend of foreign direct investment between developed and developing economies has not only been increased but significantly a new trend has emerged for foreign direct investment among developing to developing economies. It has been seen that foreign direct investment (FDI) as foreign capital is playing very wider and important role in the socio-economic development of a nation. Evidently, it played an important role to the development of the developed nations, and playing a significant role in the development of the number of developing nations. Today, FDI is considered to be the core incentive for economic and social development as far as the developing nations are concerned.

Keywords- Globalisation, FDI, emerging economies, new trend, BRICS, India.

Introduction

The term 'Globalisation' in today's rapidly changing business and technological environment has a broader concept and defines a process of economic and social connection between not only people but also the organisations and businesses. It would not be wrong to say that today this world gives a picture of global village as everything from people to businesses are interconnected across the world regardless of physical borders.

As the concept of globalisation spread rapidly, the need of going global and integrate the business in international markets aroused. Globalisation affected the flow of FDI from developed countries to the developing countries. The developed countries such as UK, US and other EU countries, had reached to the high level of education, economy and liberalisation. They started transferring the capital in international market through investing in developing countries like China, Poland, Romania, India, Russia, UAE, Malaysia, Brazil, Africa and many more. Every nation would like to liberalise their policies as much as possible in order to get highest numbers of foreign investors and be benefited of globalised economy. The globalisation strategy assisted the companies to expand their businesses in free economies of the world to maximise the profits and shareholder's equity[153]. Globalisation, free market economy and foreign direct investments initiated at the same century and now have changed the markets through transnational business strategies. And such strategies creates a new trend of capital flows with drastic changes- among emerging economies for inflows as well as out flows.

What is Emerging Economies?

Emerging economies refer to those low-income countries, whose business or social activities are in the process of rapid growth through economic liberalisation. Growth of such economies are also depending on the role of government for social engineering towards restructuring the national economic system and promotional activities for long-term economic/ industrial development in that country.

The emerging economies can be identified based on their territory, population, economic scale, per capita income, science & technology, education, development of infrastructure construction, and their impact on world economy. These countries can be identified as-

- Maintaining high economic growth rate;

[153]P. Kumar, "*A New Trend in FDI- India, EU and Poland Perspective*" ASM Business Review, "*Business Strategies Practices and Innovations*" the Bi-annual Referred Journal, ISSN No.: 09749136, Volume-5 Number-1, Pune, India, 2016, Pp51-60

- With significant growth in economic scale and rapid growth of population;
- Coming from low-income countries and having middle-level or below per capita;
- Adopted new economic policies and openness according to their demands;
- High representation around the globe and influence to the world economy, etc.

All basic indicators show that the future prospects for these emerging economies are very high and will be able to maintain such rapid growth in their economies as well as industrial growth in coming years.

Meaning of FDI and sustainable Growth

Foreign direct investment is a method of direct investment into a business of a country by the company or individual of another country[154]. This direct investment can be either in shape of merger and acquisition of a company in targeted country or by expanding business operations of a company in a targeted country. Foreign direct investment does not mean to invest in securities like bonds and stocks, of another country. It is in contrast to portfolio investment[155]. If a company buys 10% shares of any foreign company then it will be categorised as Portfolio investment. Portfolio investment is a capital provision to a firm in exchange for the earning profit or return possibility. The one who does portfolio investment does not eligible to acquire any management interest in the firm. Foreign direct investment is generally regarded as mergers and acquisitions of company in host country by any foreign investor or company.

Foreign direct investment (FDI) means that any company or organisation can do direct investment into the production of another country. It can be through various ways; buying company in another country or by expanding business into another country. Expanding business means opening a new business unit of existing business or by opening a completely new business. There are many reasons behind doing foreign investment; it may be because of taking advantage of low wages of a country, privileges like tax exemption which are given by some countries as an incentive to take advantage of tariff-free access of the region or of a specific market. Foreign direct investment is the opposite of portfolio investment. In portfolio investment a company buys stocks and bonds of different companies located in different countries. Foreign direct investment is the part of national accounts of the country. It does not include investments which are done by purchasing shares of another country. It is also called as an example of international factor movements.

The role of foreign direct investments was considerably got importance after the development of United Nations in 1960s. The flow of FDI at the global level varies by time, it was observed that the global flow of FDI during the economic crisis period was directed towards the developing countries and transition economies. The fact was that the transition economies with the more open policies and growing economies were providing more opportunities to the host countries than the developed countries. It is projected that the world half FDI will be directed towards the developing nations by the end of the year 2020. The developed nations has reached to their maturity and have less opportunities for business that are already exist there, that is why the companies in developed countries are looking forward towards the developing countries for further expansion of their business. And by providing such opportunities developing countries are able to attract investors constantly which is helping them to develop their economy sustainably.

At the global level, BRICs countries that are Brazil, Russia, China and South Africa are the most attractive destinations for the foreign direct investments.

Hypothesis

Foreign Direct Investment (FDI) play a very crucial role in the development of developing economies, also when the source of FDI is another developing economy. Therefore research paper has identified the channels of this positive development and quantified them.

Research is also focused on BRICS development and potential market as India.

Research Methodology

The research paper has adopted methods of investigation- Literature and data reviews.

[154] De Mello L. R. (1999), Foreign direct investment-led growth : evidence from time series and panel data, Oxford Economic Papers, No. 51, pp. 133-151.
[155] Bergstrand, Jeffrey H., and Peter Egger. (2007) "A Knowledge-and-Physical-Capital Model of International Trade Flows, Foreign Direct Investment, and Multinational Enterprises," Journal of International Economics, 73(2): 278-308.

Trends of FDI in Emerging Economies since 1990

Foreign Direct Investment was considered as negative, unhelpful, and it was thought of as it brings technology that is inappropriate for the country. For almost after 40 years, a different view regarding the Foreign Direct Investment has emerged. Foreign Direct Investment is now considered as beneficial and almost all the countries have tried to provide welcome investments from other countries. Countries have started to recognise that they can attract FDI by using both the economic and FDI policies. Technological advancements in communication and information industries have combined to create a new form of industrialisation, a form of industrialisation based increasingly upon the application of enhanced services for improvements in productivity. One consequence of this "thought ware" economy is the increased interdependence and specialisation of production among trading nations. Increasingly, we witness the transnational sharing of production in which various segments of the production process are being parcelled out to countries with perceived competitive advantages[156].

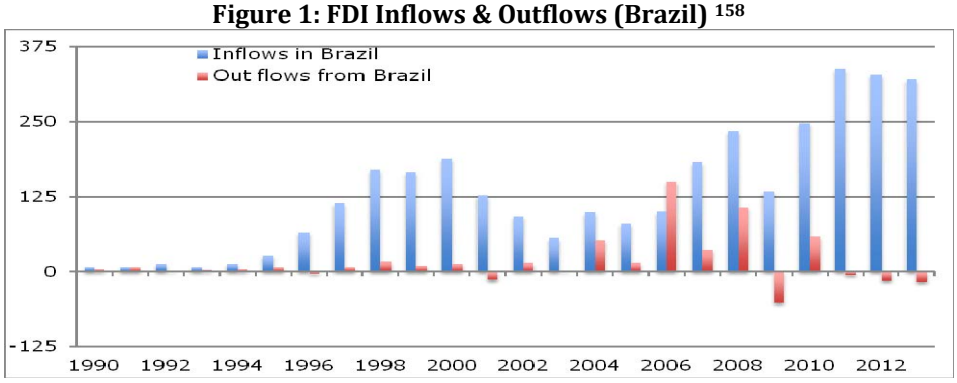
The emerging economies are considered as attractive destination for foreign direct investment, globally. The BRICS countries that are Brazil, Russia, India, China and South Africa are world fastest growing economies. The factor of economy growth is an attractive factor for foreign investors to invest in the growing economies to get an adequate return on investments. Foreign direct investment into emerging economies surpassed that into developed markets despite any precedent to the contrary a year ago even thusly inflows abated all-inclusive, " UNCTAD" said in its World Investment Report 2015. Inward FDI flows to developing economies reached their highest level at $681 billion with a 2 per cent rise. Developing economies thus extended their lead in global inflows. China became the world's largest recipient of FDI. Among the top 10 FDI recipients in the world, 5 are developing economies.

The low level of flows to developed countries persisted in 2014. Despite a revival in cross-border mergers and acquisitions (M&As), overall FDI flows to this group of economies declined by 28 per cent to $499 billion. They were significantly affected by a single large-scale divestment from the United States. Investments by developing-country multinational enterprises (MNEs) also reached a record level: developing Asia now invests abroad more than any other region. Nine of the 20 largest investor countries were from developing or transition economies. These MNEs continued to acquire developed-country foreign affiliates in the developing world[157].

Global FDI inflows are projected to grow by 11 per cent to $1.4 trillion in 2015. Expectations are for further rises to $1.5 trillion in 2016 and to $1.7 trillion in 2017. Both UNCTAD's FDI forecast model and its business survey of large MNEs signal a rise of FDI flows in the coming years. The share of MNEs intending to increase FDI expenditures over the next three years (2015–2017) rose from 24 to 32 per cent.

Analysing few global economies by inflows and outflows of their FDIs measures in US$ at current prices and current exchange rates per capita.

Figure 1: FDI Inflows & Outflows (Brazil) [158]



Brazil is one of the most attractive destinations for FDI. As shown in figure 1, trend for Brazil inflow has always higher. Year 2011 recorded as highest received inflows and bit slow down in 2012

[156] Kumar, N. 2012. *Globalization and Quality of Foreign Direct Investment.* New Delhi, Oxford University Press, 2012. P39.
[157] http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf
[158] UNCTAD Statistics, Foreign Direct Investment Statistics. Online available at http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88

and 2013. Comparing out flows from Brazil is in negative (-). Thus, trend to receive inflows in Brazil is predicted to be increased in 2016, 2017 and continue till 2020.

Figure 2: FDI Inflows & Outflows (China)[159]

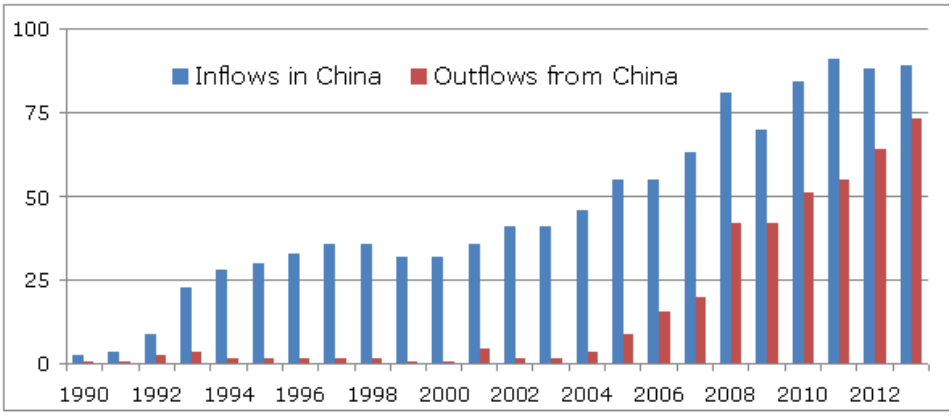
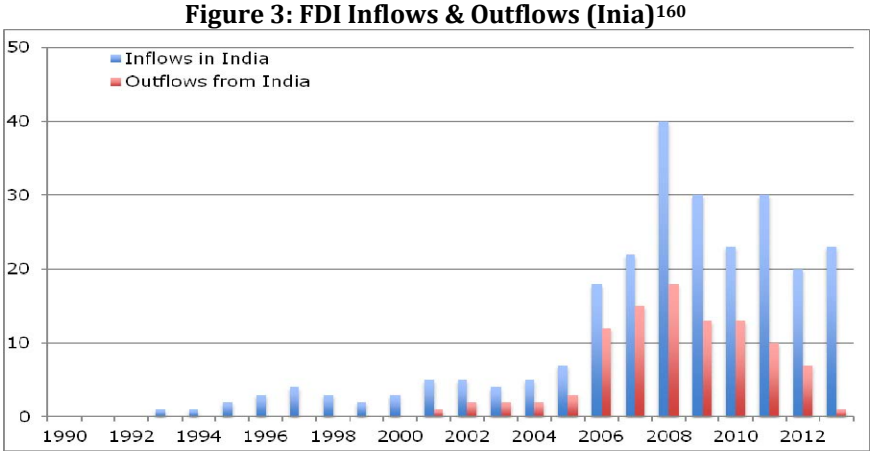


Figure 2, explains about the trend in China. China is receiving FDI inflows without any affects of economic crisis since 2008, and receiving FDI inflows without any interruptions. Also out flows from china is growing which is showing that China being one of the emerging economy is also investing to other economies. Such trends are expected by 2020 to be much larger than it is now.

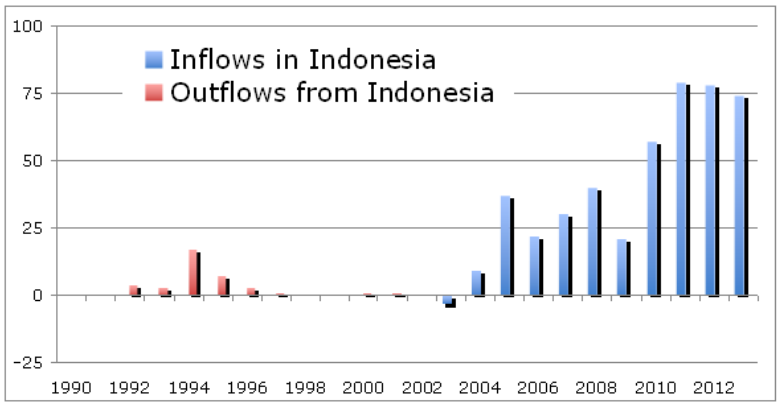
Figure 3: FDI Inflows & Outflows (Inia)[160]



India being one of the fastest growing emerging markets received highest FDI inflows in 2008. According to figure 3, after 2008, inflows to India slightly fell down and again recovering in a better way, but outflows from India is still very slow. Since 2001, Indian companies started to go abroad after adaptation of liberal policies by Indian government, which started to decline after 2008. Year 2013, was the lowest recorded year for last ten years for out flows of FDI. Expected data shows that India remain one of the favourite destination for FDI but Indian investment going abroad is also on the track to recover themselves and take more interest to global market. Newly launched "Make in India" project 2016, busting inflows and attracting FDI in many sectors.

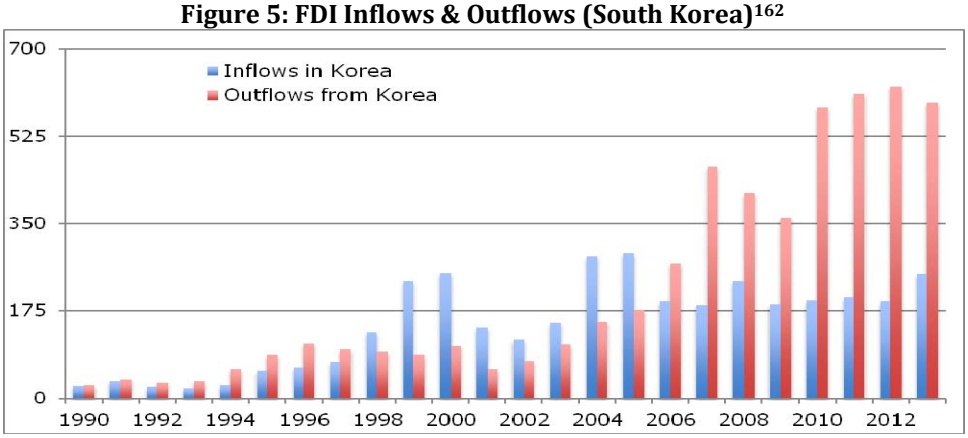
Figure 4: FDI Inflows & Outflows (Indonesia)[161]

[159] UNCTAD Statistics, Foreign Direct Investment Statistics. Online available at http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88
[160] UNCTAD Statistics, Foreign Direct Investment Statistics. Online available at http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88



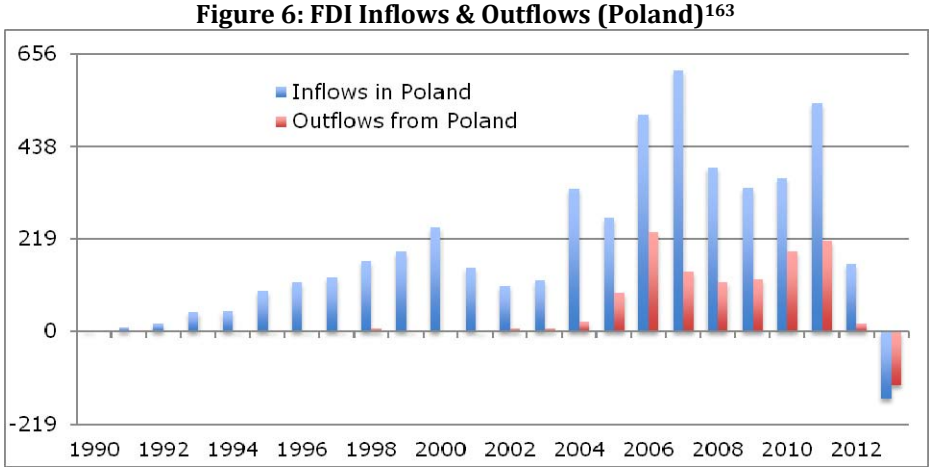
According to figure 4, Indonesia favourably receiving FDI inflows. From Indonesia out flows are almost neglected.

Figure 5: FDI Inflows & Outflows (South Korea)[162]



South Korea is known for outflows FDI, figure 5. In 2013 outflows from South Korea was slightly lower than 2012 and respectively 2011 but still out flows are much higher than foreign capital inflows.

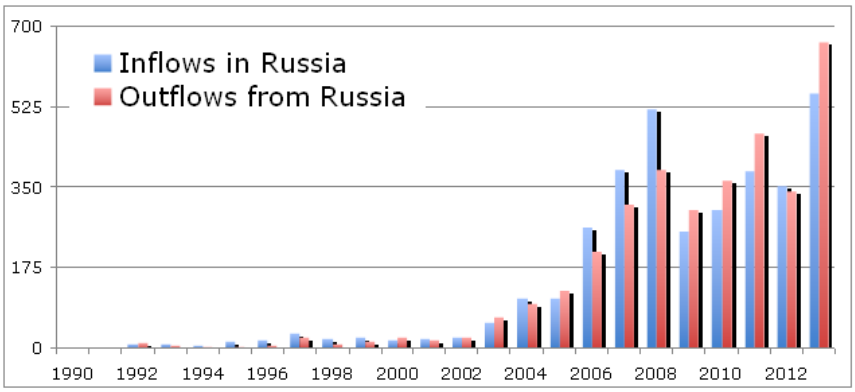
Figure 6: FDI Inflows & Outflows (Poland)[163]



[161] UNCTAD Statistics, Foreign Direct Investment Statistics. Online available at http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88
[162] UNCTAD Statistics, Foreign Direct Investment Statistics. Online available at http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88
[163] UNCTAD Statistics, Foreign Direct Investment Statistics. Online available at http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88

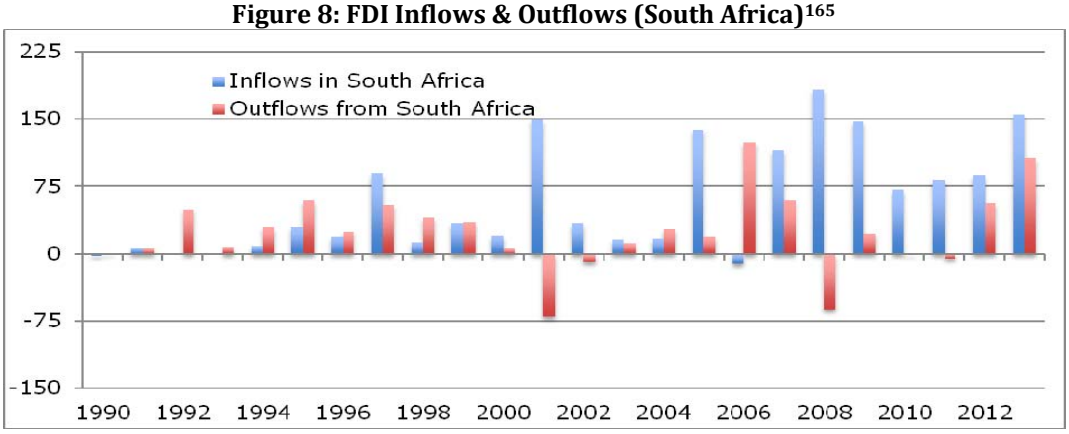
As shown in figure 6, Poland is not very favourable destination for FDI inflows as well as for outflows. It has been noticed that 2007 was the pick time when Poland received highest inflows. 2013 were very bad due to investors started to take their capital out of the country. It was the signal when International firms started to loose confidence for Polish Market. But again since 2014 market is recovering and foreign capital flow has been increased. It is also predicted that in coming years, Poland is going to be one of the top destination in the European Union 28. And by 2020, Poland is going to be one of the top 10 destinations for inflows FDI in world ranking.

Figure 7: FDI Inflows & Outflows (Russia)[164]



Russia is playing very important role towards inflows and outflows of FDI. According to figure 7, Russian investment is going out of Russia is much higher than foreign capital coming inside the country. The similar trend is expected in 2016. Due to economic sanctions on Russia inflow graph is lower but out flow from Russia will continue at least up to 2020.

Figure 8: FDI Inflows & Outflows (South Africa)[165]



Foreign direct investment (FDI) going into and out of the emerging economies- India, Brazil, South Africa, China, and Russia – all in all regarded as BRICS – is mounting in worldwide impact, consistent with a United Nations report discharged earlier. The most recent Global Investment Trends Monitor (GITM) indicates that over the previous decade, foreign direct investment going into BRICS countries has more than doubled than pre-crisis level and holds current share of global FDI flows at 22 percent.[166] Totalling $322 billion in 2013, which is 21 percent higher than in 2012. In the mean time, investment from BRICS into different nations has moved from $7 billion in 2000 to $126 billion in 2012.[167] Author's predictions are by 2020 global FDI flow to BRICS will increase up to 40-45 percent.

[164] http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx
[165] http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx
[166] http://unctad.org/en/PublicationsLibrary/webdiaeia2014d1_en.pdf
[167] Winters, L. A., M. Gasiorek, J. L. Gonzalez, P. Holmes, M. M. Parra and A. Shingal, *Innocent Bystanders: Implications of an EU-India Free Trade Agreement for Excluded Countries*, Commonwealth Secretariat, London, 2009.

Specifically, the report highlights that FDI from BRICS countries into Africa spoke to 25 percent of Africa's inflows a year ago, with most stores heading off to the assembling and administrations segments. While labor sets back the all 'finances in Africa may not contrast fundamentally from those in the firms' home economies, the job free, amount free right of entry of African nations and China's zero-levy measures for African Least Developed Countries (LDCs) have produced assembling investment.[168] For example, Brazil has developed its business in the new African ethanol industry in nations like Ghana, Angola, and Mozambique; Among all China is the top most putting nations in LDCs, for example Zambia and Sudan; an Indian organisation as of late obtained an African cell telephone system; and Russian banks are growing to nations, for example Nigeria and Côte d'ivoire. The report notes that this developing relationship between BRICS and Africa is liable to be strengthened sometime later because of the quick investment development and streamlined updating right now occurring in BRICS nations. "The ascent of FDI in assembling, which has positive outcomes for work creation and mechanical development, is turning into a vital feature of South–south investment participation," it says.

Notwithstanding, the primary impart of BRICS' outward investment is still in developed economies, with 34 percent of their stocks setting off to the European Union. The report notes that these investments are in substantial part determined by 'business sector looking for thought processes' and additionally mergers. The EU is around the fundamental gurus in each of the BRICS and the prevailing speculator in Brazil and Russia. In China and India, the EU has less weight. In any case in the wake of adjusting for particularities in FDI information, for example the conspicuous part of Hong Kong and seaward Centres in Chinese FDI and of Mauritius in Indian FDI, the EU ranks higher additionally in these nations. In a direct correlation with the Japan and US, the EU emerges as the heading mogul around the Triad nations in each of the BRICS.[169] This proposes that EU firms are overall positioned to rival other multinational companies in the BRICS. The examination of the amount of undertakings affirms this uncovering; the part of the EU in China is much more stupendous than recommended by FDI information. China emerges as the principle BRICS focus for EU ventures, however regarding FDI inflows China involves rank three after Russia and Brazil. The different effects might be clarified by the minor number of extremely substantial ventures in the characteristic asset division of Russia and the extraordinary number of fund and exchange identified little investments in China.[170] In a few cases, FDI has turned into the major entrance technique of EU firms into the BRICS markets.

Global and EU-15 investments in the BRICS, as measured by the amount of investment activities, were strong to the worldwide emergency until 2008. As to the present financial downturn and the normal drop in worldwide FDI, the BRICS might end up in an advantaged position in a few regards.[171] As a matter of first importance they are huge economies where FDI is fundamentally pulled in by the neighbourhood advertises with development desires above world normal, despite the fact that not in Russia. Neighbourhood investment development particularly in China and India will take into consideration FDI to develop if organisations from emergency hit nations are in the position to contribute. Bigger multinationals might progressively focus on the precise not many nations in the world where they can grow bargains, for example China, India and Brazil, and shift investments there.[172] Likewise for European organisations the extension to the BRICS remains a major fascination. Because of the span of the BRICS and their separation to Europe, just bigger or more particular moguls might profit from this chance.

India as Fastest growing economy in the World

The GDP growth rate of of India is 7.5 per cent in current year that makes India the fastest growing economy in the world, over taking China's 6.9 per cent growth rate. India is the only among BRICS, where growth will accelerate to 8% in financial year 2016 and 8.3% in financial year 2017. The top sectors attracting highest FDF inflows into India are- electrical equipment's, services sector (financial and non financial), telecommunications, transportation industry, fuels, chemicals,

[168] Kumar, N., *Globalization and Quality of Foreign Direct Investment*. New Delhi, Oxford University Press, 2012.
[169] Alfaro L., Chanda A., Kalemli-Ozcan S. & Sayek S., *FDI and Economic Growth: the Role of Local Financial Markets,* Journal of International Economics, No. 64, 2004. Pp. 89-112.
[170]Winters, L. A., M. Gasiorek, J. L. Gonzalez, P. Holmes, M. M. Parra and A. Shingal, *Innocent Bystanders: Implications of an EU-India Free Trade Agreement for Excluded Countries,* Commonwealth Secretariat, London, 2009.
[171]Menon & Chongvilaivan, "Southeast Asia beyond the Global Financial Crisis Managing Capital Flows", ASEAN Economic Bulletin, Vol. 28(2), 2011. Pp. 107-114
[172] Alfaro L., Chanda A., Kalemli-Ozcan S. & Sayek S., *FDI and Economic Growth: the Role of Local Financial Markets*, Journal of International Economics, No. 64, 2004. Pp. 89-112.

construction activities, drugs and pharmaceuticals, food processing, cement and gypsum products. Huge investment potential exists in the upcoming Knowledge Process Outsourcing sector and the real estate industry.

Thus, India is one of the few markets in the world which offers high forecasts for growth and earning potential in practically all fields of business, particularly in tourism, Information technology and agricultural sector with good returns.

India as market- facts & figures

With a median age of 25 years, India has over 550 million people below the age of 25 years;

- Over 32 per cent of the 1.1 billion population is between the age group 0- 14;
- Thus, it illustrates the sheer size of the Indian education market;
- 11 million students are in the Higher Education system;
- Representing just 11% of the of the 17-23 year old population;

This means that the number of people in India needing primary and secondary education alone exceeds the entire population of the USA;

ATTRACTS
- Large young population
- Cheap skilled Labor
- Availability of raw materials
- Largest English speakers
- Stable and active govt.
- Friendly Economic Reforms
- Rule of Law
- Federal Structure
- Special Economic Zones

BARRIERS
- Cultural differences: working style in India is totally different than Europe and USA.
- Inefficient, arbitrary and opaque procedure of civil services- followed procedures concerning investment, taxation and import laws are neither quick nor constant.
- Direct contact

Conclusion

Research paper tried to show a risk for developed economies which has been emerged with new trend in foreign direct investment with sustainable growth of emerging economies such as China and India as well as an organisation such as BRICS. The forecast of UNCTAD says that emerging economies will maintain such growth and attract more than 45-50 per cent of the global trade. And continuously, developed economies will decline receiving inflows from developed economies. Thus, the new trend of FDI inflows as well as as flows between emerging economies are the potential fetters for these economies to maintain their sustainable growth.

Also it can be observed that the foreign direct investment in India is showing an increasing trend, irrespective of global economic crisis. The giant market size and other factors are responsible for making India an attractive destination for global investment.

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