IMPACT OF FDI ON ECONOMIC GROWTH AND EMPLOYMENT: A STUDY OF (BRICS) NATIONS

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ABSTRACT

Today foreign direct investment (FDI) has become an important concept. It is generally assumed that FDI has positive impact to the growth of the economy. Most of the growth theory advocates that FDI helps for the growth especially of developing countries. It has become a debatable issue that whether FDI has impact on the economic growth and employment. Different research shows their own view regarding this issue and there is not any consensus about this issue. So in this research paper we have tried to make an analysis in five developing country of world which has formed an organization called BRICS. In this research paper it has tried to reveal the impact of FDI on the economic growth and employment in the BRICS (Brazil, Russia, India, China, and South Africa) countries. For this study data used for the period of the period of (2000 to 2015). For this study correlation analysis has been applied to investigate the types of relationship exist between FDI and the economic growth and unemployment growth in BRICS country. The analysis shows that FDI has positive impact on the growth rate in Brazil and China rest BRICS nations FDI do have any significant positive impact in growth. The impact of FDI in employment generation is not significant in all BRICS nation.

Keywords: FDI – Foreign Direct investment, BRICS- Brazil, Russia, India, China, and South Africa, GDP- Gross Domestic Product.

INTRODUCTION

We are very familiar with the word of foreign direct investment (FDI). FDI is the type investment which is done by the foreigner in the form of establishing the business setup or acquiring the business operation of the targeted country through the buying ownership of existing company or organization of the home country which directly increases the production capacity of the targeted country.

According to the IMF “FDI is a process to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor.”

Types of FDI

There are three types of FDI

• Horizontal FDI: - It is the types of FDI in which an organization carry out the same business activity to the targeted country which company is doing in the home country. in this
form of FDI the same business activity is transferred from home country to the destination country for spreading the business.

- **Vertical FDI:** In this form of FDI company of one country carry out same business in destination country but the business activity would be different from the home country. There lots of company in the world does these things. The vertical FDI can be further classified in two ways 1) forward Vertical FDI – which brings the company close to the targeted countries market , 2) backward Vertical FDI – in which company move back from the production process and try to acquire the raw material from the destination country.

- **Platform FDI:** In this form of FDI organization of one country make the investment in other country which is completely unrelated to their own business of the home country. In this form FDI company try to expend his business in the other industry according to the favorable condition of the foreign country.

**Method of FDI**
1. Through setup new business in the foreign country
2. Through acquiring the share of the foreign country
3. Through merger or acquisition of other organization of the foreign country

**FDI inflow in BRICS countries**

The trend analysis of the FDI inflow in BRICS countries shows the increasing the share of world FDI inflow. The data of FDI inflow of 2000 shows that total FDI in the world inflow were 1.461 trillion $. Out of that BRICS countries had contribution around 5.60 % according to the World Bank data. The trend of total shares of FDI inflow the increases in the BRICS countries. In 2005 the BRICS countries had share of 9.80 % of total FDI inflow in the world. In 2008 which was global recession time were developed economy facing the measure problem and at the same time global investment was also falling at this situation the share BRICS countries continuously increased. In 2008 the share of BRICS countries FDI inflow was around 347 billion $ which was around 25.5 % of the world economy. This happened because global investor found that BRICS countries were emerging economy and they are less affected from the global recession. in 2015 the BRICS countries share of world FDI inflow is approx 17.81% according to world bank data.

**Economic growth in BRICS countries**

If we analyze the economic growth of the BRICS countries we find it shows a mix up trend of increasing and decreasing of growth rate. In 2000 the average growth rates of the BRICS nation were 6.11% while world economic growth rate were 4.34% according to World Bank data. This growth rate of BRICS nation further increase to 7.09%. In 2008 due to global recession the growth rate of the BRICS nation falls and reach to 5.41%. The growth rate of the BRICS countries falls because global recession affected the entire BRICS nation. After the recession in world economy most of the BRICS countries suffered from that the economic growth rate of Brazil falls continuously from 5.09% in 2008 to -0.128% in 2008. The growth rate of Russia falls drastically from 5.28% in 2008 to -7.585 in 2008. The condition of India and China were better. There were very minor fall in growth rate was recorded in two countries. After 2008 the average growth rate of average growth arte BRICS countries continuously falls. This happened because non performing of (Russia, Brazil, South Africa).
In 2015 the average growth rate of BRICS nation were 1.63% because of the negative growth rate of Brazil and Russia

**Employment to population ratio (%) in BRICS countries**

The trend analysis of the Employment to population ratio (%) in BRICS countries shows the constant rate. The data of Employment to population ratio (%) of 2000 shows that the average Employment to population ratio (%) of the BRICS nation was 57.54 % while in the world, Employment to population rate were 61.14% according to World Bank data. This Employment to population ratio (%) of BRICS nation further increase to 58.14%. The basic reason low average Employment to population ratio (%) in BRICS was the very low Employment to population rate in South Africa. In South Africa the Employment to population ratio (%) is almost constant rate of 40% from 2000 to 2015. The condition of employment got down with passes of time. In 2010 the average Employment to population rate of the BRICS falls to 56.58% as compare to world 59.58%. The situation in employment could improve in 2015. The average Employment to population ratio (%) was 58.28% in BRICS nations.

**LITERATURE REVIEW**

**Bornali Bhandari (2007):** The research of Mr. Bornali Bhandari was related to find out the impact of FDI in income inequality and unemployment in transitional countries in Eastern Europe and Central Asia for the period of 1990 to 2002. The result of research shows that FDI has very irrelevant impact on the unemployment of the country.

**Keshava, Dr. S.R. Rathnamma (2008):** This paper was a comparative analysis of impact of FDI between India and China. According to their analysis they found that FDI has positive relation with the economic growth but it is not at significance level. Through their analysis they found the 1% increase in FDI cause 0.12% increase in the GDP of the nations.

**Nathapornpan Piyaareekul Uttama, Nicolas Meridy (2010):** The research paper of Mr. Uttama & Meridy was concerned about to investigate the linkage between FDI and production spillover effect in the ASEAN countries. The study was conducted for the period of 1995 to 2006. The researcher had applied the causality analyze the impact of the FDI in productivity. In their research they found that there is positive impact of the FDI in the production of ASEAN nation. They reach in conclusion that due to FDI the economic activity increases and growth of other industry take place.

**Srikant Misra (2011):** The core argument of this research paper was that FDI has positive as well as negative impact for the country. Researcher finds that yes FDI has pushed the economic growth rate in India.

**B Venkata Suresh and K Ramakrishna (2013):** The research paper of Mr. V Suresh & K Ramakrishna mainly focused about to investigate whether FDI helpful for the economic growth in India or not. According to their research conclusion they found that FDI has positive impact for the Indian economy and they found FDI helpful for the economic growth.

**Priya Dwivedi and Jyoti Badge (2013):** The main argument of this research paper was that FDI has positive impact for the Indian economy. Researcher done the study to find out the
impact of FDI in Indian economy for the period of 2000 to 2013. They applied correlation as well as regression analysis for their study. According to their study they found that FDI is helpful to push the economic growth in India

Gaurav Agrawal (2015): The core issue of this paper was to investigate the relationship between FDI and the economic growth of the BRICS nations. The researcher applied co integration and causality analysis at panel level. The result shows that there is co integration between these two. The causality test also confirms that there is long run causal relationship between two.

Narendra and Shilpi Devi (2015): The researcher of this paper focused about to reveal the relationship between FDI and economic growth in BRICS nation as well as to find out the factor of FDI. They done there study through literature survey 1996 to 2007. According to their conclusion FDI is necessary for the fostering the economic growth of the BRICS nation.

OBJECTIVE OF STUDY

1. To investigate the relationship between FDI inflow growth and economic growth in BRICS nations.
2. To find the impact of FDI in unemployment rate in BRICS nations.

HYPOTHESIS

H0: The FDI growth & economic growth in BRICS Nations are independent.
H0: The FDI growth & Employment to population ratio (%) In BRICS countries are independent.

RESEARCH METHODOLOGY

- Types of data: This research completely based on the secondary data.
- Source of data: World Bank data base, BRICS report.
- Period of study: 16 years from 2000 to 2015
- Types of research: Descriptive and experimental
- Tolls to be used: Simple statistical approach correlation analysis.

Above all, in this research level correlation between FDI growth and economic growth as well as FDI growth and employment to population ratio (%) more than (0.5) has considered significance. The analysis has done each BRICS nation separately for the calculation.

Analysis: The analysis has done each BRICS nation separately. So study has done one by one of BRICS nations.

Brazil

Table 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
<th>Degree of freedom</th>
<th>Critical value (5% for two tailed Pearson correlation)</th>
<th>Hypothesis condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI growth rate and economic growth</td>
<td>0.694</td>
<td>14</td>
<td>0.497</td>
<td>Reject the null hypothesis</td>
</tr>
<tr>
<td>FDI growth rate and employment to population ratio</td>
<td>0.175</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
</tbody>
</table>

Graph 1: Economic growth, FDI growth and unemployment rate in Brazil

Source: World Bank website

Russia

Table 2

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
<th>Degree of freedom</th>
<th>Critical value (5% for two tailed Pearson correlation)</th>
<th>Hypothesis condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI growth rate and economic growth</td>
<td>0.407</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
<tr>
<td>FDI growth rate and employment to population ratio</td>
<td>0.006</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
</tbody>
</table>


Graph 2: Economic growth, FDI growth and unemployment rate in Russia

Source: World Bank website
India

Table 3

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
<th>Degree of freedom</th>
<th>Critical value (5% for two tailed Pearson correlation)</th>
<th>Hypothesis condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI growth rate and economic growth</td>
<td>-0.024</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
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<td>FDI growth rate and employment to population ratio</td>
<td>0.323</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
</tbody>
</table>


Graph 3: Economic growth, FDI growth and unemployment rate in India

Source: World Bank website

China

Table 4

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
<th>Degree of freedom</th>
<th>Critical value (5% for two tailed Pearson correlation)</th>
<th>Hypothesis condition</th>
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</thead>
<tbody>
<tr>
<td>FDI growth rate and economic growth</td>
<td>0.480</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
<tr>
<td>FDI growth rate and employment to population ratio</td>
<td>-0.382</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
</tbody>
</table>

Graph 4: Economic growth, FDI growth and unemployment rate in China
Source: World Bank website

South Africa
Table 5

<table>
<thead>
<tr>
<th>Variable</th>
<th>Correlation</th>
<th>Degree of freedom</th>
<th>Critical value (5% for two tailed Pearson correlation)</th>
<th>Hypothesis condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI growth rate and economic growth</td>
<td>0.446</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
<tr>
<td>FDI growth rate and employment to population ratio</td>
<td>0.457</td>
<td>14</td>
<td>0.497</td>
<td>Accept the null hypothesis</td>
</tr>
</tbody>
</table>


Graph 5: Economic growth, FDI growth and unemployment rate in China
Source: World Bank website
RESULT ANALYSIS
Result of the finding has been analyzed separately for each BRICS country.

Brazil: According to the above research it has found that there is significant correlation between FDI inflow and the GDP growth rate in Brazil as we can see from table 1. The growth of FDI is helpful for the surging the economic growth in the country and it reject our null hypothesis that there is There significance positive relationship between FDI growth & economic growth in BRICS Nations. Other finding which is related to the impact of FDI in employment shows that there is not significant relationship between FDI growth and employment to population ratio. It means that FDI can increase the growth of GDP but cannot create much employment in the nation.

Russia: As per as Russia is concerned there is not any significance relationship between FDI inflow and the GDP growth rate that is shown by table 2. The finding of employment to population ratio shows that FDI inflow and employment to population rate is not related to each other. Russian economy analysis accepts both above hypothesis.

India: As per as India is concerned there is not any significance relationship between FDI inflow and the GDP growth rate as we can see in table 3. The finding of employment to population ratio shows that FDI inflow and employment to population rate is not related to each other. Indian economy analysis rejects both above hypothesis.

China: According to the above research it has found that there is no significant correlation between FDI inflow and the GDP growth rate in China as we can refer table 4. The growth of FDI is not helpful for the surging the economic growth in the country and it accept our null hypothesis that there is that FDI growth & economic growth in BRICS Nations are independent. Other finding which is related to the impact of FDI in employment shows that there is negative relationship between FDI growth and employment to population ratio. It means that FDI can increase the growth of GDP but quite reduce employment in the nation.

South Africa: As per as South Africa is concerned there is not any significance positive relationship between FDI inflow and the GDP growth rate as we can see from table 5. The finding of employment to population ratio shows that FDI inflow and employment to population rate is somehow positively related to each other the correlation between FDI growth and employment to population is 0.457 which just below of level of significance. South Africa economy analysis accepts both above hypothesis.

CONCLUSION
The above research on the BRICS country shows mix up result. Through the result country like Brazil we can reach in the conclusion that in these countries the impact of FDI in the economic growth is positive and significant, it means that FDI growth can help these country to push up the faster growth of this nation. The result of other remaining country like India, Russia and South Africa china shows same result and on the basis of the result we can say that this country should not rely upon FDI for economic growth, because these nations do not have significant positive relationship of economic growth with FDI. The result of the other finding is same in all BRICS nations. None of BRICS nations have significant relationship between employment to population ratio and FDI inflow growth. So on the basis of above
conclusion it can be said that all BRICS nation need to take effective measure herself for larger growth of employment they cannot rely upon FDI inflow.

REFERENCES